



The Scottish
Government
Riaghaltas na h-Alba

Housing, Regeneration and Planning

Procurement Efficiencies: Monitoring and Evaluation of Devanha Phase 2



PROCUREMENT EFFICIENCIES: MONITORING AND EVALUATION OF DEVANHA PHASE 2

**James Morgan, Graeme Bowles and Kate Carter (Heriot-Watt
University; Anna Evans (AE Consultants Ltd)**

Scottish Government Social Research
2012

This report is available on the Scottish Government Social Research website (www.scotland.gov.uk/socialresearch) only.

The views expressed in this report are those of the researcher and do not necessarily represent those of the Scottish Government or Scottish Ministers.

© Crown copyright 2012

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk

Table of Contents

1	EXECUTIVE SUMMARY	1
2	INTRODUCTION	4
3	METHODOLOGY	7
4	PROGRAMME MANAGEMENT	9
5	GOVERNANCE	11
6	COSTS AND GRANT	18
7	PROCESS, COLLABORATION AND VALUE FOR MONEY	35
8	PROCUREMENT CONSULTANTS	39
9	QUALITY AND STANDARDS	44
10	FRAMEWORK AGREEMENT	49
11	TRAINING AND EMPLOYMENT	51
12	LOCAL AUTHORITIES	55
13	EVALUATION CONCLUSIONS AND LESSONS LEARNED	61

GLOSSARY

Framework

The framework is the strategic long term agreement between Devanha and the framework contractors to deliver the housing programme. The framework allocated workload over the life of the programme to each of the contractors and set out broad terms relating to price and quality. The long term nature of any framework is intended to enable modern collaborative working principles to be embraced as a means to improving quality and procurement efficiency.

Framework contractors

The three framework contractors on Devanha were Chap, Bancon and Robertsons.

NEC approach

The NEC form of contract was adopted for Devanha. This is regarded as a best practice, collaborative procurement contract to promote the principles of value for money. NEC is widely used in framework arrangements, notably by the NHS in procuring healthcare projects. The specific form of NEC adopted in Devanha was NEC3 Option C - Target cost contract.

Open book costing

Open book costing is a central feature of the NEC form of procurement adopted in Devanha that allows the client to see the contractor's input costs. It involves the contractor "opening their books" on their supplier and material costs to the client. The construction cost to the contractor is used to set the target cost for each scheme. The open book process is a significantly different way of working for Devanha partners which required a higher level of trust and collaboration than required for traditional procurement.

Compensation events

Compensation events are a feature of NEC that replace variations and extension of time clauses found in traditional contracts. A Compensation Event compensates the contractor for any additional cost or time incurred on the construction of a scheme that is not the fault of the contractor, i.e. it is a client risk. Example compensation events would include revisions to the design or specification as the works progress, including substructure works and rework from special needs adaptations not considered in the original design.

MVPI – Moray Volume Procurement Initiative

Non-framework schemes procured in tranche 8 of Devanha. These schemes were procured by traditional arrangement outside of the framework and provide for some comparison between framework and non-framework schemes.

1 EXECUTIVE SUMMARY

Background

- 1.1 This research project is a monitoring and evaluation study of the Devanha Phase 2 procurement initiative established in 2006 by five RSLs in North East Scotland: Aberdeenshire Housing Partnership, Castlehill Housing Association, Grampian Housing Association and Langstane Housing Association. Devanha sought to develop 1563 homes (later reduced to 1,383) while demonstrating quality improvements and efficiency savings.
- 1.2 Devanha Phase 2 was a groundbreaking approach in Scotland, putting in place new structures and new methods of working.
- 1.3 The Devanha programme consisted of 51 projects with a mix of rental and shared equity units including projects which were delivered through a framework agreement with three contractors: Bancon, Chap, and Robertsons and through section 75 agreements with a variety of other developers. The programme took place in three local authority areas: Aberdeen City, Aberdeenshire and Moray.

The Research

- 1.4 The research involved a four year monitoring exercise during which data was collected annually. In addition to monitoring Devanha's performance, the research aimed to analyse transferable lessons which could be learned from Devanha's experience.

Key Findings

- 1.5 The Devanha programme failed to meet the works cost target as set out in the Offer of Grant. On this measure value for money has not been achieved. However, the basis of the original target is not clear and therefore it cannot be concluded how realistic it actually is.
- 1.6 Although incentivisation mechanisms for performance improvement were included in the procurement process, these did not relate to the Offer of Grant works cost targets. As such, the most important target was not used to drive performance improvement and procurement efficiency. This served to undermine the importance and awareness of the Offer of Grant target.
- 1.7 The Devanha programme met its HAG target as set out in the Offer of Grant. This is due to numerous and complex rent setting and HAG administration factors and is not attributable to the Devanha procurement process
- 1.8 The long term nature of the Devanha framework had the advantage of bringing price stability and predictability at a time of rising market conditions

when the agreement was signed. However as market conditions transformed at the later stages, traditional tendering was seen to provide more competitive pricing and better value for money. These conditions could not have been reasonably foreseen at the time of signing the agreement.

- 1.9 There was no experience of the NEC form of contract used by Devanha within the project team at the outset. This contributed to many of the operational and implementation difficulties throughout most of the duration of the programme and served to undermine progress toward achieving value for money. The use of a procurement consultant was largely ineffective in mentoring Devanha on NEC.
- 1.10 Devanha introduced a new procurement approach not previously experienced in the region. Innovative practices including greater collaboration, communication, open book costing and sharing of constructability experience were introduced into the procurement process. Devanha has developed procurement skills and experience that were previously absent in the region.
- 1.11 Devanha lacked leadership; partly because it did not appoint a managing director and partly because of tensions between the Devanha Board and the individual RSLs. Devanha members recognised that these problems would have to be addressed in any future collaboration.
- 1.12 Monitoring information was inadequate and the Board and the Programme Director therefore had to work very hard to put together data to manage the programme effectively.
- 1.13 Although RSLs considered risk issues prior to involvement in Devanha, it has become clear that not all potential risks relating to financial liabilities were fully considered.
- 1.14 Devanha suffered from a weak external profile and was a confusing organisation for local authorities to work with. Local authorities often felt that they were dealing with individual RSLs rather than Devanha.
- 1.15 Devanha achieved success in building to a high quality but did not achieve significant savings through bulk procurement.
- 1.16 Devanha was able to make a contribution to employment and training despite challenging economic circumstances.

Conclusion

- 1.17 Devanha did not meet its works cost targets as set out in the Offer of Grant. It had greater success as a vehicle for building to a high quality, although success was limited by the lack of full implementation of a standard specification. The considerable change in the economic climate adversely affected Devanha's ability to achieve its targets and highlighted the importance of independent inflation monitoring in future programmes.

1.18 Through trialling an innovative approach Devanha shed light on a variety of key lessons for the efficient delivery of an affordable housing programme. Perhaps the most important of these relate to the key role of leadership and governance structure for a collaborative organisation. The readiness of project teams to implement novel forms of contract needs to be considered if the benefits of these approaches are to be realised. Effective and timely data collection and monitoring systems for management and incentivisation were shown to be important. Devanha also highlighted the need for fuller implementation of a standard specification at an early stage to improve quality and take advantage of any bulk procurement opportunities.

2 INTRODUCTION

- 2.1 Devanha Phase 2 is a procurement initiative established by five RSLs in Grampian. Aberdeenshire Housing Partnership, Castlehill Housing Association, Grampian Housing Association, Langstane Housing Association and Tenants First Housing Co-operative formally came together in 2006 through signing a *Formation and Members Agreement* (Devanha, 2006). The member associations agreed to work together through Devanha but retain their individual identities while Devanha acts as their agent to deliver:
- 1563 new homes for rent and LCHO and associated environmental improvements from 2007/08 to 2010/11,
 - quality improvements,
 - efficiency savings.
- 2.2 The total number of units completed was revised to 1,383 primarily because inflation calculations carried out by procurement consultants the Collaborative Working Centre (CWC) and accepted by Scottish Government showed inflation to be above that allowed for in the Offer of Grant.
- 2.3 The Devanha programme consisted of rental and shared equity units including projects which were delivered through a framework agreement with three contractors: Bancon, Chap, and Robertsons and a through section 75 agreements with a variety of other developers.
- 2.4 All but one of the section 75 developments were Design & Build schemes, the other scheme consisting of completed units which were bought from the contractor. Non-framework, Moray Volume Procurement Initiative (MVPI) developments accounted for most of the Devanha activity in Moray, with Grampian Housing Association as lead developer working with Springfield Properties. While Devanha could influence the section 75 developers to some extent, it had considerably more control over the framework contractors. Nevertheless, a significant majority of s75 developments included substantial elements of RSL/Devanha specification.
- 2.5 Devanha Phase 2 built upon earlier experience of Devanha Phase 1, a procurement initiative developed under Communities Scotland's „Building a Better Deal“ (BABD) agenda, which was a response to the Egan and Latham reports. Through greater customer focus, improving procurement, shortening the supply chain and using people and resources efficiently, Communities Scotland encouraged RSLs to become “best practice clients” with what the Egan Report (1998) described as a change of style, culture and process, rather than just a series of mechanistic activities. This collaborative approach underpinned the objectives for Devanha Phase 2.
- 2.6 Heriot-Watt University and Anna Evans Housing Consultancy were commissioned by the Scottish Government¹ to carry out a monitoring and

¹ The research was initially commissioned by Communities Scotland which was abolished in April 2008.

evaluation study of Devanha Phase 2. The researchers established a monitoring system to track the progress of the Devanha initiative and three previous monitoring reports, Rounds 1, 2 and 3 were submitted to Scottish Government, highlighting progress, performance and governance issues.

- 2.7 Devanha Phase 2 was introduced in the context of the development of a *National Procurement Strategy* by Communities Scotland. As national policy developed, earlier monitoring rounds of the current evaluation fed into Scottish Government's *Housing Investment Reform Project*. This final report focuses on an overall evaluation of the Devanha initiative. In accordance with the research brief, this evaluation also draws out transferable lessons which may be learnt from the Devanha experience and shared across the housing sector.

Devanha Objectives and Evaluation

- 2.8 Communities Scotland's Offer of Grant set a large number of objectives for Devanha. However, the Communities Scotland research brief (2007) noted that the key objective of Devanha phase 2 was to secure improved „programme procurement cost efficiencies“ through the adoption of a revised procurement regime, embracing a consortium led, integrated procurement approach, the bulk of which was to be delivered through the use of Framework Agreements and „open book cost management“. This evaluation analyses actual performance in relation to specific Offer of Grant targets on cost and grant. The analysis considers the processes which have been introduced to attempt to achieve these efficiencies.
- 2.9 The Devanha Offer of Grant contained specific cost and grant efficiency targets which can be summarised as:
- An average works cost saving of 7.3% over the duration of the 4 year programme.
 - A target grant cost benchmark for a four person home at April 2006 of £73,000, which would equate to a 10% real grant cost saving over the four year period.
- 2.10 In addition to these headline objectives, the Offer of Grant includes objectives relating to:
- Housing & Quality Standards
 - Devanha Train – a training and employment initiative
 - Framework Agreement
 - Gain Share / Pain Share Arrangements
- 2.11 Communities Scotland's Offer of Grant put in place a process for accounting for inflation but the extent of the massive economic changes which occurred could not have been predicted. While our brief does not permit us to analyse value for money beyond the Offer of Grant targets and inflation adjustments, we do make comment on the system of inflation monitoring and on issues of wider value for money assessment.

- 2.12 Analysis of outcomes against cost efficiencies and housing quality along with less central objectives such as training is therefore central to the evaluation of the Devanha Phase 2 Initiative². The evaluation also examines the delivery of the programme and, in particular, the impact which governance has had on management and delivery of Devanha’s objectives.
- 2.13 Devanha was a ground breaking approach in Scotland, putting in place new structures and new methods of working. Many of the principles upon which Devanha was built were based on the innovations set out in *Recommendations for a National Procurement Strategy for Social Housing in Scotland* (CWC, 2007). Communities Scotland therefore encouraged the engagement of CWC as consultants to mentor and assist Devanha. The current evaluation also looks at the impact of this working relationship on Devanha.
- 2.14 Devanha operates over three local authority areas: Aberdeen City, Aberdeenshire and Moray. Local authorities’ strategic and delivery roles have grown significantly over the period in which Devanha has operated, with the increasing importance of the Strategic Housing Investment Plan (SHIP). The relationship between Devanha and the three local authorities is therefore important to the success of the initiative.

² As discussed in the report, the inclusion of a large number of targets across cost, housing quality and wider objectives has had a bearing on the operation of Devanha.

3 METHODOLOGY

3.1 We aligned our research method to the established Devanha objectives and measures of success and have not imposed additional measures of success on Devanha. We have been guided by the Communities Scotland research brief and based our analysis around answering the questions raised by the brief. The other key document guiding our analysis has been the *Offer of Grant from Scottish Ministers to Devanha Limited with the Consent of the Devanha Members* (Communities Scotland, 2007) which sets out the objectives which Devanha had to meet.

3.2 The research brief stated that the purpose of the research was to:

- Establish and implement a monitoring and evaluation framework,
- Evaluate and report on progress and impact,
- Set out key findings and learning points to aid sharing best practice,
- Provide evidence on transferable procurement practices,
- Provide evidence of outcomes against Devanha objectives,
- Provide evidence of whether those involved - Communities Scotland, RSL sectors, Consultants, Contractors and Supply Chain sectors - have appropriate policies, guidance and systems to manage change in procurement practice.

(Communities Scotland, 2007)

3.3 Table 3.1 shows the various methods employed and the questions which each addressed. A separate technical appendix gives more detail on the research tools used in the study.

Table 3.1 Research Methods and Tools

Research Method/Tool	Issues Addressed
Develop Devanha Data Capture Proforma and deliver/analyse these in three rounds.	Programme management, Housing quality & standards, KPIs, Training & Employment.
Develop Scottish Government Data Capture Proforma and deliver/analyse this in four rounds.	Cost and Grant.
Develop Devanha Non Project Specific Data Capture Proforma and deliver/analyse this in three rounds.	Programme level data on Training & Employment; Programme level data on quality innovation and modern methods of construction.
Procurement Consultant Questionnaire Survey delivered in rounds 1 & 4.	Procurement consultant issues.
Governance Questionnaire Survey delivered in rounds 1 & 4.	Devanha Board and RSL roles and relationships. Governance and sub-group structures, key issues for Devanha, Devanha"s future.
Board/Governance workshops in 4 rounds.	Wide ranging discussion involving Board and Programme Director.
Individual Interviews with Devanha chair, individual board members and Programme Director.	Strategic and programme issues.
Process workshops in 3 rounds.	Wide ranging discussion with Core group members and Development Director focusing on procurement, contract and other process issues. Also addressed issues of specification and quality.
Analysis of procurement consultant reports including diagnostic reports, periodic open book process reviews, in rounds 1 and 2.	Progress towards implementation of collaborative working and NEC contract.
Analysis of Board and Subgroup minutes in 4 rounds.	Wide ranging issues including governance, collaboration, quality, programme, cost monitoring.
Analysis of Devanha specification	Quality and standards.
Analysis of Inflation Monitoring	Inflation monitoring and validation.
Interviews with Core Group members including consultants, contractors and RSL development staff in round 4.	To explore quality, process, collaboration and contract issues in confidential setting.
Interviews with Devanha partners including Scottish Government and Local Authorities.	Wide range of issues including systems, relationships, impact in different LA areas and the future of Devanha.

4 PROGRAMME MANAGEMENT

4.1 The *Devanha Offer of Grant* (Communities Scotland 2007) set out targets and details of funding for Devanha Phase 2. The overall programme was innovative in agreeing total spending over a four year period. Table 4.1 shows the total four year grant award of £115,088,139 including an “inflation risk allowance”.

Table 4.1 Total HAG Allowance

Item	Amount
Previous Drawdown	£22,744,000
Project Grant Limit	£75,354,450
Grant Inflation Allowance Limit	£16,989,689
Maximum Grant	£115,088,139

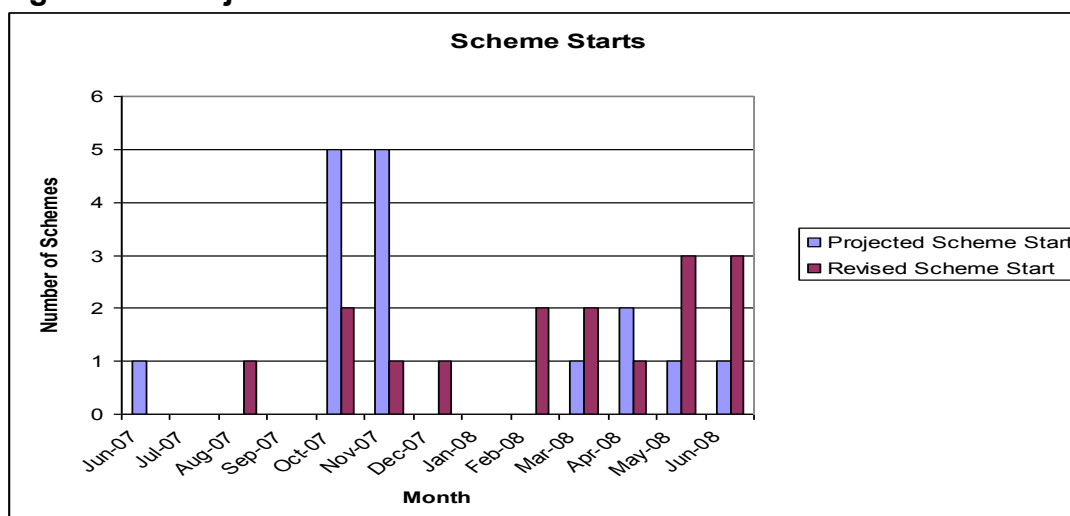
Source: Devanha Offer of Grant (2007)

4.2 Within this overall amount, Devanha had to set out annual expenditure programmes based Scottish Government Grant Planning Targets (GPTs). Annual expenditure targets were controversial in that Devanha wanted greater freedom to plan over the four years. However, they are useful in helping Devanha and Scottish Government monitor progress to ensure that spending for the programme as a whole is on target and to guide Devanha in planning individual site starts and spending profiles.

Programme Management under a New System

4.3 Figure 4.1 shows difficulties experienced in the first year of the programme with delays to site starts resulting in lower expenditure than had been anticipated. The picture looked worse in relation to the single year expenditure because many projects scheduled to start in autumn 2007 slipped to the end of the financial year or into the next. In all, the underspend in 2007/08 was in the order of 56% (around £10m from a GPT of £17.738m).

Figure 4.1: Project Starts in 2007/2008



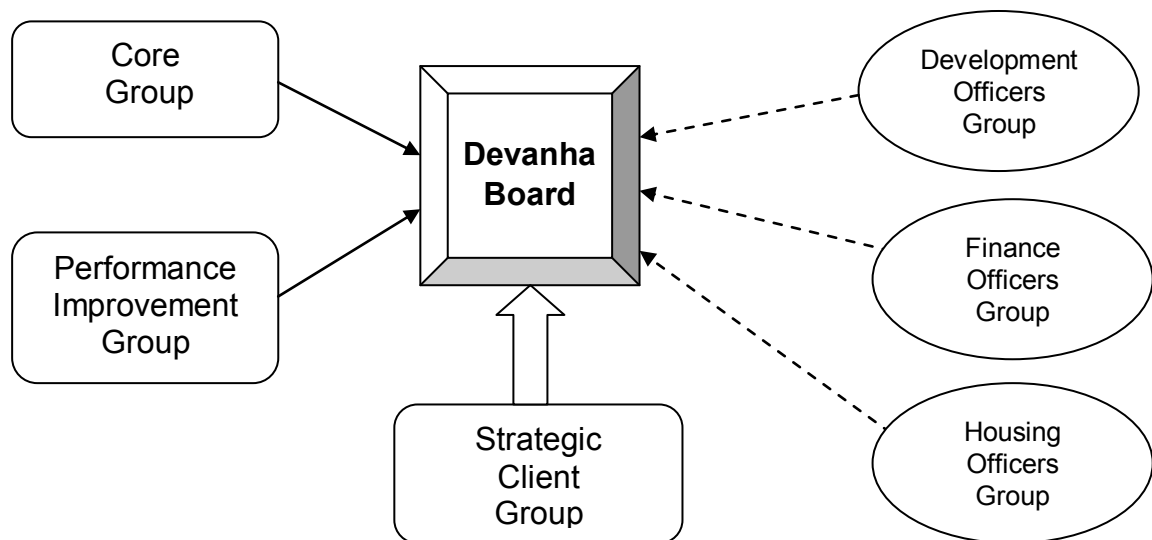
Source: Taken from Devanha Monitoring & Evaluation Report Round 1 October 2008 (Based on Data Capture Forms Returned By Devanha May 2008)

- 4.4 The delay and consequent initial underspend was due to greater than anticipated time taken in agreeing “validated” costs for the projects. High inflation in the construction sector in the North East resulted in more detailed discussions between Scottish Government and Devanha over validation of individual project costs. This occurred at a time when all parties were developing new procedures and there were delays on all sides; Devanha were developing a consistent format in which to collate data, CWC was developing its validation process and Scottish Government was refining the authorisation process.
- 4.5 New, more streamlined approval procedures resolved this difficulty in later tranches of project approvals. The new system, agreed by both Scottish Government and Devanha increased the focus on cost control, allowing for some variation in costs from targets for projects but enabling streamlining of tranche approvals where no project was more than 10% above target and the tranche as a whole met the target.
- 4.6 By June 2009, Devanha had significantly turned around its performance in programme delivery. Forty five of a total of 51 projects were on site or complete, with the first 12 at practical completion or final completion stage. Devanha had addressed the major programme delivery problem but this led to a different problem with insufficient grant funds available for the large number of projects on site during 2008/09. Devanha could have spent more than its GPT and there was a requirement for it to front fund some development.
- 4.7 Devanha had overcome its initial problems as a delivery vehicle and by 2010 all projects were on site or complete. At the time of writing, only the final large project at Donside in Aberdeen has not reached at least practical completion.

5 GOVERNANCE

Devanha's governance structure

5.1 Devanha is managed and controlled by a Board of 10 Directors; each member association may nominate two directors and over the course of the four years the convention has been that these are the Chief Executives from each RSL and one of their RSL board members. Throughout most of the four year period Devanha had one employee, the Programme Director, who reported to the Board and attended its meetings. Other frequent attendees to Board meetings included representatives of the procurement consultants, CWC. Apart from the Programme Director and latterly a part time Partnership Director, Devanha had a support structure drawing on a range of existing RSL staff, and Devanha's framework contractors and consultants. There were six sub-groups:



- Strategic Client Group – consisted of the Development Directors, Devanha Programme Director, one Finance Officer and one Chief Executive providing a link to the Board. Its overall role was to push forward on the operationalisation of collaborative working.
- Core Group – comprising RSL and Devanha development staff and framework consultants and contractors.
- Performance Improvement Group – This had a similar membership to Strategic Client Group. Its role was as a „think tank“ to consider issues of housing quality and innovation.
- Development Officers Group – consisting of RSL Development Directors, its purpose was to develop policies and support the Board.

- Housing Officers Group – members were CEOs from all RSLs, it rarely met but did discuss rent harmonisation in the early years of Devanha.
- Finance Officers Group – included finance officers from all RSLs and a Board representative. It provided financial support to the Board.

5.2 In the first year’s evaluation, there was some criticism that the „concentration on structural change” and slow set-up of the Board’s support structure. It was concluded that this may have held up implementation of collaborative working and served as a distraction to delivery during Devanha’s first year. This was also the first pointer to the lack of dedicated, senior leadership, a theme which recurred throughout the four years of the programme (discussed further below).

5.3 The Strategic Client Group actively pushed forward collaborative working in a number of areas e.g. the framework agreement, contracts and open book cost management where progress had previously been slow. Board members felt that the Strategic Client Group and the Core Group were key to Devanha – the Strategic Client Group as „client” and the Core Group with a partner operational focus providing a communication route for partners. However, CWC and the Programme Director considered that the Core Group could have been more proactive in achieving shared learning.

5.4 The Performance Improvement Group, Development Officer Group, Housing Officers Group and Finance Officer Group were in effect forums for ongoing (but sometimes overlapping) discussions between the RSLs and referral to the Board. This led to duplication and made some decision making protracted and cumbersome. The need for these forums reflects one of the defining aspects of Devanha - the fact that all the RSLs wanted to stay heavily involved in the management and governance of Devanha from the start. The Board workshops over the four years suggest that this anxiety has waned over time as members have developed their knowledge and understanding of collaborative working, and trust with each other. As reflected in the evaluation’s final Board workshop, February 2012:

“I came onto the Board half way through. What struck me immediately was that meetings resembled more like senior management team meetings because many of the issues were managerial, different from the governing body of an RSL.”

“It was very cumbersome and time consuming. (We had) interminable meetings and some of the negotiation was very difficult.”

5.5 This desire for the RSLs’ continuing hands-on control (as represented through Board members and the sub structure) was also reflected in the Board’s decisions regarding leadership. The Programme Director had no role in leading and championing issues with external partners. The weakness in Devanha’s executive leadership was discussed in Round 1 of the evaluation, and in late 2008 the Board acted by making the internal appointment of a part time Partnership Director. This enabled a more efficient validation process but

did not address the leadership issue. Others, including CWC and Scottish Government continued to reflect on the weakness in client leadership.

- 5.6 Lack of unanimity in the Board meant that Devanha never satisfactorily resolved this issue although Board acknowledged this gap in Devanha's structure, agreeing that there should have been a managing director in place from day one. The critical role for this person would be to champion relationships internally (between the RSLs, and with the framework partners) but also with the local authorities. However, Board members also reflected that they had not been ready to make the crucial decision on appointment until it was too late, for the reasons of trust and learning curves described above:

"We needed a managing director as we kept coming across areas where people didn't have delegated powers. They needed powers to make decisions but at the time we were not willing to let go. If we were starting from square one we would have an MD now."

(Board member, Board workshop, February 2012)

- 5.7 In summary, Devanha created a bureaucratic structure based on the partners' desire in the early days for hands-on involvement in the company. It failed to make the critical appointment of a managing director at the right time.

Devanha's strategic role

- 5.8 The Devanha model is based on the company acting as agent of the individual RSLs in delivery of the development programme. It must therefore have sufficient control over the development programme to manage it and to make important decisions at both a project and a strategic level. When projects are on-site, project management lies with the individual RSLs although communication with Devanha must be ongoing for monitoring purposes.
- 5.9 In Devanha model there is an inter-linked relationship between the RSLs and Devanha in setting development strategy. In theory, development strategy is a matter for the RSLs, whilst programme management and strategic decisions about execution of the programme and its future rests with the Devanha Board. Board members have a variety of views over whether strategic decision making is the responsibility of the RSLs or the Devanha Board. Most agree that programme management is the reserve of the Devanha Board and only a minority consider that individual project management is the responsibility of individual RSLs.
- 5.10 The range of responses in relation to strategic responsibility and programme management demonstrate the joint venture relationship between Devanha and the RSLs. On the one hand this type of relationship can bring partners together where there are areas of common interest and shared learning but splits may also occur where there are differences in opinion and interest. Board minutes and discussions with the Board members show that tensions have built up progressively over the last few years over financial risk and specifically reconciliation of HAG between projects. Despite the difficult issues

that it has had to consider, the Board has developed over the last four years to a stage where it has been able to address these challenges in an open and honest way.

“We have had serious challenges over the last 18 months and the way we have tried to address those has felt more open. It does not always feel comfortable if we have made a particular statement, or taken a particular stance, but I have found that over the last year there has been much greater focus on finding a way forward.”

(Board member, Board workshop, February 2012)

- 5.11 The Devanha Board clearly has the necessary skills and expertise to consider and debate complex policy and business issues and to make strategic decisions. This was due to the composition of the Board which comprises the RSL CEOs and members from existing RSL boards and so all had professional and governance skills and experience. By necessity, the Board agenda and style was very managerial in the early years (in order to get the programme up and running), but over time this proved to be no substitute for having the necessary organisational infrastructure to make processes and decision making more efficient, i.e. one senior executive leader who could drive action and broker issues between the partners in between Board meetings.
- 5.12 One key example of the weaknesses that the Board considered was the inadequacy of monitoring data. The Board was hampered in its decision-making by the inadequacy of information on project costs, a problem which was never satisfactorily resolved during the life of Devanha’s programme. Board members explained this issue as the lack of understanding and the „learning curve“ on the part of consultants, project managers and contractors over collaborative working, but ultimately that this was caused by inadequate training. However, as argued by one of the Board members in 2012, in the absence of a Managing Director, it was for the Board to put in time and commitment to ensure that these new processes were embedded and being practiced.
- 5.13 In summary, Devanha did not meet its full potential in relation to its strategic role. Its ability to make efficient and effective decisions was hampered by the weaknesses in its executive structure, specifically lack of a managing director.
- 5.14 During 2010 and 2011 a working party of the Devanha Board spent a considerable amount of time considering the options for the future of Devanha. A number of options were considered: the *status quo ante*, reverting to individual RSLs developing; lead developer, with one of the five RSLs undertaking development and procurement work on behalf of other RSLs (and perhaps other parties) in an agent-client relationship; a super developer, where a new entity would undertake the full range of strategic and business development in addition to project development, management and procurement roles, with individual RSLs having only a housekeeping role; and Devanha 3, otherwise known as the „Preferred Intermediate Model“ (PIM) which was recommended to the Devanha Board.

- 5.15 PIM would be similar to current Devanha in that it would provide participating RSLs with a jointly controlled agency for managing a joint development programme, joint projects and procurement; but it would have business development and strategy under the direction of a reconstituted Board. The corporate structure would comprise a Managing Director (MD) and majority of non-executive directors (not CEOs but those representing Boards or Committees of Management), intended to ensure separation of non-executive and executive governance powers. There would also be a CEO Advisory Group.
- 5.16 The Working Party's recommendations were considered in March 2011, alongside a counter proposal from Grampian Housing Association, suggesting an alternative of Sirius Group (the proposed Group of Langstane and Grampian Housing Associations) acting as lead developer. The constituent members of Devanha were then asked to consider their positions, and in June 2011 three RSLs confirmed their preference to go with Sirius (when and if constituted), whilst the remaining two stated they were undecided. This lack of consensus for the future of Devanha remains, as confirmed by the governance questionnaires (completed in late 2011) and the Board workshop in 2012.

Monitoring performance and managing risk

- 5.17 Devanha's role in monitoring performance involves: establishing suitable monitoring frameworks; ensuring the availability of information to enable proper decision-making; and having appropriate control over programme and project performance. Throughout Devanha's four years, the role of Programme Director has been to monitor and report to the Board on programme and project progress and performance. The role of CWC as Procurement Consultant has been to undertake a range of procurement support, training and performance management activities.
- 5.18 Scottish Government and the Board understood from the early stages of the programme that CWC would supply a web-based data recording and data sharing scheme. The tool would produce actual cash expended against Scottish Government targets month by month and the tool could report scheme by scheme as well as at programme level. However, throughout the four year programme Devanha has been dissatisfied with the end product which was said not to be fit for purpose. The Programme Director had to continually make his own fixes and had concluded by 2009 that a simple spreadsheet template, circulated to all project managers would achieve the same task. Nevertheless, evidence between 2008 and 2012 shows that the Board demonstrated a good level of scrutiny, instructing corrective action where necessary.
- 5.19 While the monitoring framework was an important tool to enable efficient reporting to the Board, a much more critical issue for the Board was the accuracy of the data being produced by the consultants and contractors. Through the course of Devanha's programme it became clear that it was difficult to obtain accurate and timeous information in relation to actual and predicted costs for projects. There is evidence from minutes that the Board

continuously pressed project managers and contractors to provide the correct information. However, as time went on it was clear that this was not only to do with delays in provision of information but more critically the project managers' and contractors' understanding of the open book costing methodology, and their inability to provide accurate information. The Board convened a working party in March 2010 to consider the issue and concluded that the problem was caused by inadequate training, although some suggested it was to do with training not being *embedded*.

5.20 The greatest problem which the Board has had to tackle over the last 18 months to 2 years has been related to the impact of inadequate cost information i.e. confusion over each of the RSLs' exposure to cost risk. This problem has become more evident over the latter years of the programme as the actual costs have gradually been appearing from the contractors as projects completed. By March 2012 Scottish Government estimated that the overall grant shortfall including that for shared equity was around £1.78 million. There are a number of ongoing discussions which will have a bearing on whether and to what extent there is a grant shortfall including relating to the final tenure balance and funding of Stage II costs for some schemes.

5.21 The Board and the Finance Officers Group have considered at length through difficult debates a method through which any shortfall in grant should be reconciled and redistributed over the member organisations. RSL members had not anticipated this situation occurring; most felt the formula for any grant redistribution was clear in the Formation Agreement (albeit regarding grant surpluses rather than shortfall), based around the principle of equitable distribution. Considerations included redistribution based on the principle that final grant distribution and thus responsibility for any shortfall, would be shared out on the basis of the respective number of bedspaces in the programme; concern that levels in performance have varied widely, ranging from savings of 22.7% to cost overruns of 47.3% with the consequence that some RSLs would be expected to repay grant money from savings while others had substantial increases in costs and grant entitlement; and the impact that different rent setting may have of grant calculations. Consequently, the board has not (at the time of writing) resolved this issue and has employed an external consultant to give advice.

5.22 In considering this issue a Scottish Government representative stated:

"The sharing of risk is an important issue for Devanha to deal with. It needs to be clear how (or whether) individual RSL finance can contribute to Devanha, e.g. to tackle common issues or to cross subsidise schemes. This may also be an area of interest for the Scottish Housing Regulator. Individual RSLs may also have to consider whether the risk of being involved in a collaborative venture outweighs the benefits for them as an organisation."

(Scottish Government, March 2012)

5.23 Lessons can be learned from Devanha's experience in clarifying potential risks at the outset. More effective action from the Board may have ensured greater buy-in from the project managers and contractors in provision of suitable cost data at an earlier stage, which would have helped project the

cost risk sooner. Furthermore, the early consideration of the rent harmonization considered by Housing Officers Group in April 2008 seems to have been left unresolved by the Board, and this is an area which may prove crucial in reconciling the shortfall in grant across the RSLs.

Relationships between Devanha and the RSLs

- 5.24 Reviewing Devanha's experience over the four years, it may be concluded that the relationship has been characterised by the unwillingness of the RSLs to cede control to Devanha, particularly in the first half of the programme. One significant area of conflict has been the discussion over the HAG redistribution (as discussed above), and in terms of strategy development there was lack of a common voice and plan from Devanha.
- 5.25 While there have continued to be tensions and difficult issues to resolve, the Board has learned to work more positively together for the collective benefit. Devanha moved from being "*seen as a pest*" by many of the RSLs to being seen as beneficial. But there is a sense that Devanha took too long to develop and realise these benefits, with the result being lack of effectiveness.
- 5.26 The Board continued to argue that the shared learning and benefits of collaborative working were worthwhile, but acknowledged that there were inherent conflicts built into Devanha's structure and processes. The Governance Working Group recommended that Service Level Agreements between Devanha and the constituent RSLs were revisited so that RSLs would relinquish control of management of the programme.
- 5.27 In 2012, Board members discussed how they managed the conflicts of interest and agreed that Devanha was "*able to think for itself, was independent of the RSLs*", although there could not be 100% separation between the Devanha Board members, and their roles as CEO/Board members of the RSLs as they were the same people. But sharing the perspectives of the constituent members was also positive. Looking to the future, a number of the members stated that their RSL would not be happy if there was no representation on the Board (whether this was Devanha or an alternative procurement vehicle) given the importance of the issues considered.

"We consider it vital to conserve the existing RSLs' individual identities, missions and commitments to particular client groups: because it is from these commitments that we get much of our energy, many fresh ideas and much of our excellent customer service."

(Report of the Governance Working Group, January 2011)

- 5.28 Over the last four years RSL members struggled to cede control to Devanha to enable it to be fully effective. Over time the RSLs appreciated the key benefits of shared learning on collaborative working practices and the open book costing methodology. Looking forward, there is still a desire for the RSLs to maintain their independence in their development functions, and this will be a key criterion for any future Devanha or alternative procurement model.

6 COSTS AND GRANT

Introduction

6.1 This chapter considers whether the Devanha programme has achieved VFM with reference to the cost and grant data that has been collected from Scottish Government in the agreed format. Where reconciled completion data is available, actual HAG and works cost at scheme completion are compared with targets. For the remainder of schemes comparisons are made between Offer of Grant and validation stage targets. Additionally, data collected through workshops and interviews of a range of key participants in the Devanha programme has been used to inform the assessment of VFM.

Final and Interim reports on Cost and Grant

6.2 In previous years our reports on progress towards Devanha Offer of Grant works cost and HAG targets and evaluation of the Devanha procurement process have been partial due to lack of actual completion data. For this final report actual cost data is still incomplete, with data available for 757 units (56% of total to be constructed) in 35 schemes from the programme. Consequently, conclusions still have to be qualified though the quantitative and qualitative data that is available allows us to evaluate VFM

Works Costs and Grant targets

6.3 A number of Cost and Grant targets apply at different stages along the timeline of each scheme. This section reports on actual works cost and HAG expenditure performance against targets. However in assessing procurement efficiency and value for money of the design and construction process, works cost target is the more meaningful measure since there are a number of factors, e.g. to do with rent setting, that influence HAG expenditure but which are unrelated to procurement process.

6.4 Target measures relating to works cost for each scheme are set out as follows:

Devanha target	The works cost target contained in the Devanha Offer of Grant. This was the target cost benchmark which, if met, would have demonstrated Value for Money. The benchmark related to a particular type of scheme with weightings used to adjust it as appropriate.
Validated target	An estimate of cost specific to each scheme based on the latest design and market information at the point of grant approval, and before the works commence.
Adjusted target	The validated target is subject to revision and adjustment to reflect design changes and client risks that occur during construction period. These adjustments relate to compensation events and are a central feature of NEC

form of procurement.

Actual cost The actual cost is the final agreed signed off cost which is only known once construction is completed.

- 6.5 The **Devanha Target:** The research was commissioned to monitor and evaluate performance of Devanha against targets set out in the Offer of Grant. Part 6 of this states that Devanha agreed to make average works cost savings of 7.3% over the programme, based on assumed savings of 5% in year 1, 7% in years 2 and 10% in year 3. The original target grant cost benchmark was expressed in the Offer of Grant as a “target grant cost benchmark for a 4 person home at April 2006 of £68,648.” However the actual target that was applied to all schemes in Devanha related to a benchmark figure of £67,284 which represented target works cost for a 3 person unit at April 2006. This is the accepted basis for target recorded in grant validation forms. This benchmark is used to calculate a target for each scheme in Devanha by applying the Scottish Government bedspaces weighting factor and Scottish Government agreed inflation uplift.
- 6.6 The Scottish Government **Validated target** is that which is approved by Scottish Government at tender stage and is based on the Offer of Grant target adjusted to take account of scheme specific design and risk variables. The validation is an approval that the target cost for each scheme had been prepared in line with the agreed process on the advice of CWC. The Offer of Grant and Scottish Government validated targets are recorded on the Scheme Cost and Grant validation forms which provided data for this section.
- 6.7 The **Adjusted target works cost** is known only at scheme completion stage. As each scheme is constructed, the target is reviewed and adjusted for agreed compensation events and their associated costs. Typically these relate to site risks and design changes initiated by the client and changing market conditions which affect contractors’ costs. The final adjusted target is not known until the scheme is complete and all events have been costed. The adjusted target is crucial as it dictates the amount of gain or pain that is shared by the contractor according to the agreed mechanism.
- 6.8 The **actual cost** is that which is signed off at scheme completion stage against which the Offer of Grant and Validation stage targets are compared. As the data shows, the divergence between actual cost and validated targets at scheme level can be very considerable due to the varying levels of price and design risk experienced. Validated targets became out of date quickly at a time when the market was changing rapidly and difficult site conditions and uncertain technical requirements not apparent at validation stage were reasons for validated target and actual cost variance. Whilst RSLs shared in the benefits of a keener market, they bore much of the design risk through the NEC procurement approach.

Assessing Value for Money

- 6.9 The monitoring component of the research brief involves tracking and comparing numerical cost and grant data made available over the life of the

programme with the original targets set out in the Offer of Grant. As such, the ability of Devanha to meet these targets is transparent, objective and readily determined by a straightforward comparison of target and signed off cost and grant at completion stage of the schemes. It has become apparent however that the evaluation of whether VFM has been achieved is more than a straightforward comparison to determine whether Offer of Grant targets have been met. Many factors including market conditions, individual scheme and site characteristics and the project team's ability to influence events all affect actual cost. The target set in the original Offer of Grant and its achievability has also been an issue and is discussed later in this report.

- 6.10 Probably the single most significant influence on Devanha performance has been the complete transformation of economic circumstances since the Offer of Grant was signed. These were obviously outwith the control of Devanha, but there are issues about how the Devanha process accounts for changing markets and prices compared to traditional procurement discussed in this report. Specifically, the ability of the framework approach to take advantage of a market which became very competitive as Devanha progressed is arguable and there are differing views on this within the Core group. Although the open book costing process allowed cost savings to be passed to the RSLs, the full benefit of traditional competitive tendering in a very keen market were probably not realized since the benefits were shared by both client and contractor, rather than solely by the client. However, this would only take into account costs and the criteria for comprehensive VFM assessment would go beyond capital cost and grant comparisons, and would ideally take account of life cycle costs, end user satisfaction and measures of product quality. The primary benchmarks set out in the Offer of Grant against which achievement of target is measured are cost and grant.

Inflation and Market conditions

- 6.11 The original target was to deliver 1563 houses for a fixed amount of grant which assumed a level of works cost inflation increases over the programme as set out below. These works cost inflation increases shown in Table 6.1 were from forecasts provided by CWC using BCIS All-in Tender price index. Although the detail behind these are not available a review of BCIS data shows that these were forecasts of year-on-year tender price increases. As such the forecast only showed a slowing down of the rate of price level increase toward the latter part of Devanha, but did not forecast the fall of tender price levels actually experienced. Subsequent BCIS forecasts were revised downward as the gloomier economic outlook was becoming clearer.

Table 6.1 Offer of Grant Inflation forecast

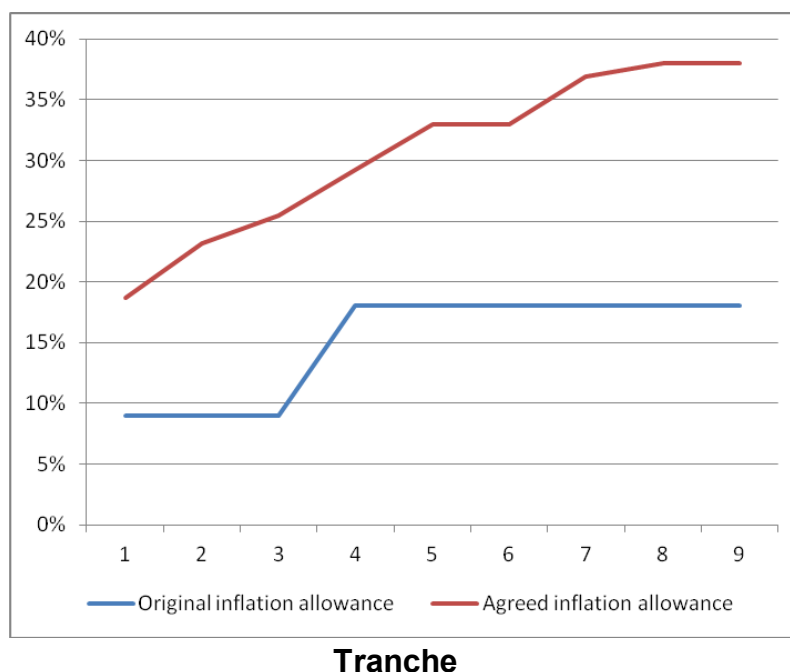
Year 06/07 = 3.44%
Year 07/08 = 5.33%
Year 08/09 = 8.39%
Year 09/10 = 6.86%.

6.12 As events have shown, the sharply rising market before onset of recession and its impact on inflation, subcontractor and supplier prices experienced by Devanha were not forecast at all and very quickly rendered the Offer of Grant inflation assumptions out of date. A comparison of the Offer of Grant figures in Table 6.1 with the *original inflation* and *agreed inflation* figures (Table 6.2 and Figure 6.1) which were applied at scheme validation stage to set targets at the level of individual schemes illustrates this. From the outset in tranche 1 these inflation rates outstripped the Offer of Grant assumptions.

Table 6.2 Original and Agreed Inflation recorded at SG Scheme Cost and Grant Validation stage (percentages are relative to the 2006 base year)

Tranche	Original Inflation	Agreed Inflation
1	8.95%	18.72%
2	8.95%	23.20%
3	8.95%	25.44%
4	18.09%	29.20%
5	18.09%	32.96%
6	18.09%	32.96%
7	18.09%	36.93%
8	18.09%	37.98%
9	18.09%	37.98%

Figure 6.1 Original and Agreed Inflation recorded at scheme validation stage

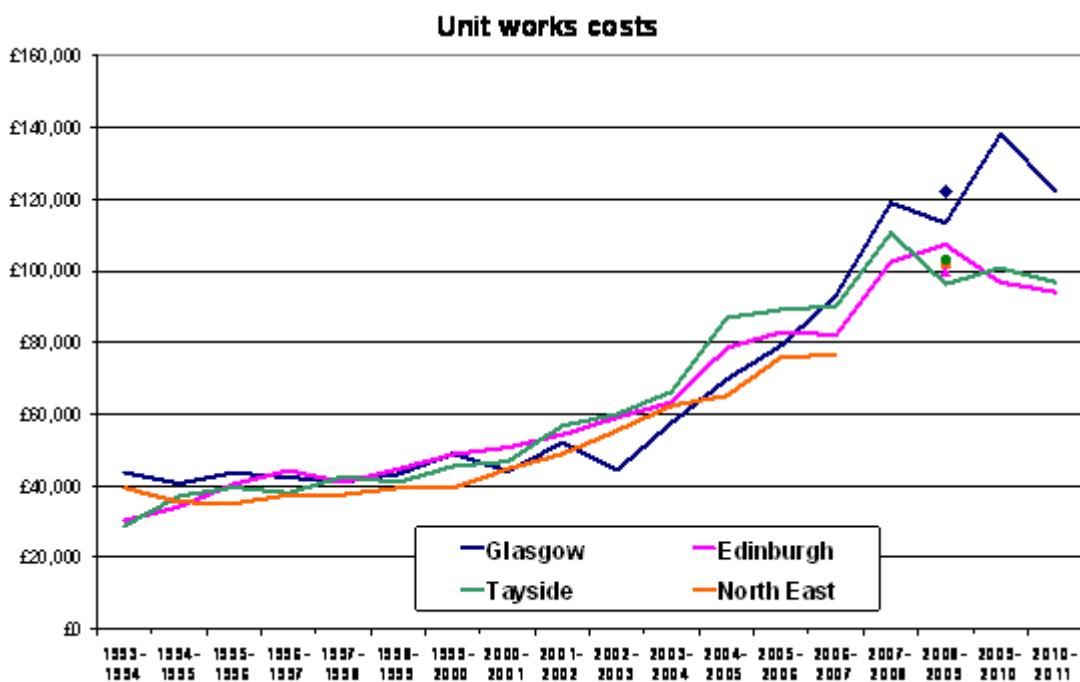


6.13 The market conditions and level of inflation actually experienced in the North East has been a major issue for Devanha and its ability to deliver the programme. It has been a source of repeated discussion throughout and

features strongly in the Core Group workshops and end of process interviews carried out with Devanha participants. Clearly, since revised works cost targets are based on agreed inflation levels prevailing at scheme validation stage, the assessment of inflation is key to setting the target and the subsequent ability to meet it. Scottish Government commissioned a separate Inflation Monitoring peer review report from HWU in 2009 which contained a number of conclusions and recommendations relating to the process for assessing agreed inflation. One of the main weaknesses highlighted was that much of the data used to inform the inflation allowance was derived from within Devanha and could not therefore reflect open market conditions.

6.14 An important factor to note is the timing of when the Devanha Offer of Grant was prepared and signed in relation to national and regional construction market conditions. At this time the market was extremely buoyant and one of the benefits of a long term framework agreement in a rising market is that it can bring predictability to pricing and the capacity to deliver the programme. However, as the market turned to recession the extent to which the RSLs could take advantage of very keen pricing in open market conditions was arguable. The open book costing process did allow material and subcontract cost savings to be passed on, but probably not to the extent of traditional competitive tendering at individual scheme level.

Figure 6.2 Unit works costs comparison between different Local Authority areas



- Figure 6.2 is based on data supplied by Scottish Government and shows the average works cost trend across 4 regions in Scotland. Market pressures on works costs are seen to be broadly similar in each region. Throughout the nineties works costs were relatively flat before increasing from 2000 as the economy grew, with a steep rate of increase from around 2006 before the

onset of recession around 2008. If the North East were to have followed these trends across the Devanha period, where costs started to level off in Glasgow, Edinburgh and Tayside, then Devanha should have been able to deliver greater cost savings. However, all indications from Devanha were that the market remained stronger for longer and that the onset of recession was delayed and less severe than the national picture. The inflation reports prepared by CWC and used as the basis for agreeing inflation uplifts supported this argument and are the source of evidence for market conditions being distinctly different in the north east. Since the inflation uplifts were used in adjusting cost targets at validation stage of schemes it is clear they are instrumental in the measurement of procurement efficiency. One of the key findings of this report is that any future procurement arrangements which involve inflation monitoring in target setting should consider independent third party assessment of inflation to ensure greater objectivity in any assessment or audit of value for money.

Approach to Final Report – Monitoring and Evaluation

- 6.15 At the time of writing of the report, complete and signed off data is only available for 35 of the 51 schemes which accounts for 757 units. Data up to Scottish Government validation stage has been made available for all 51 schemes which does allow for a level of analysis in all schemes to inform the findings and conclusions.

Analysis of Works Cost Data

- 6.16 Table 6.3 summarises the works cost data discussed in this section.

All schemes to completion stage – 35 schemes.

- 6.17 The actual total works cost as signed off by Scottish Government is 4.22% above the Offer of Grant target. For the 35 schemes for which data is available therefore the Devanha works cost target has not been achieved. These schemes include a mix of tenure (rented and NSSE³), framework and non framework and are drawn across all 9 tranches. Deviation from target on individual schemes varies considerably, though the extremes are explained by scheme and site specific features and are not directly attributable to extent of procurement efficiency. For example, the near 50% reduction on Devanha target at one extreme is explained by a substantial reduction in scope of the works between target setting and validation stage on the scheme (a one-off circumstance). Similarly, the overrun of almost 43% is not due to extremely poor management or lack of efficiency, but difficult site conditions not accounted for in the notional Devanha target.
- 6.18 Thus, variations from Offer of Grant target cannot be directly attributed to any management or procurement efficiency from the Devanha process since the adjusted targets for individual schemes can vary considerable from calculated

³ NSSE is a shared equity scheme.

Offer of Grant target. That is to say, the Offer of Grant target is a notional benchmark that doesn't take into account scheme specific factors and risks.

Tenure – NSSE v Rental (works cost)

- 6.19 25 of the 35 schemes are for Rental and the remaining 10 are NSSE. The actual total works cost as signed off by Scottish Government for Rental schemes is 4.36% above the Offer of Grant target. **For this rental subset of schemes the Offer of Grant target has not been met.**
- 6.20 The actual total works cost as signed off by Scottish Government for NSSE schemes is 3.60% above the Offer of Grant target. **For the NSSE subset of schemes the Offer of Grant target has not been met**, though performance is slightly better than Rental schemes albeit the data sample is smaller.

Framework v Non-framework (works cost)

- 6.21 19 of the 35 schemes are framework and the remaining 16 are non-framework. The actual total works cost as signed off by Scottish Government for framework schemes is 9.36% above the Offer of Grant target. **For this subset of schemes the Offer of Grant target has not been met.**
- 6.22 For Non Framework schemes the Offer of Grant works cost target is 2.78% *below* the Offer of Grant target. **For the Non Framework subset of schemes the Offer of Grant target has therefore been met** and the performance is better than framework schemes. Many of these schemes will have benefitted from going to the marketplace at a more favourable part of the economic cycle and the MVPI schemes were subject to a separate negotiation.

Analysis by tranche (works cost)

- 6.23 The average works cost saving in the Devanha target is based on averaged assumed increasing savings through procurement efficiencies over the life of Devanha programme. The data however does not convincingly support this assumption. When broken down by tranche there is no real pattern of improving performance apparent as shown in Table 6.5 but the number of schemes and units available for analysis within each tranche does vary, meaning that a true like for like comparison cannot be carried out. It is encouraging though that the scale of the cost overruns experienced in tranche 2 and tranche are not repeated later in the programme,
- 6.24 As the figures in the Summary Table 6.3 show, the actual costs exceed the Offer of Grant works cost target at aggregate level for the framework schemes, but are below the Scottish Government validated target. This suggests that either efficiencies were not delivered as expected or the Offer of Grant target may have been too challenging for most schemes, or a combination of both (analysis at scheme level show most framework schemes do not meet the Devanha target). Regarding the SG validated target, interviews revealed a sense that the NEC gain/pain share process provided an incentive for contractors to be cautious in maintaining validation stage

targets at a high level and that the Scottish Government validated figures may therefore have been artificially high.

Analysis of HAG Data

- 6.25 Table 6.4 summarises the HAG data discussed in this section.
- 6.26 This section reports on actual HAG expenditure against target HAG expenditure. However for reasons outlined at the start of the chapter HAG performance is not a good measure of procurement efficiency. Of course, works cost are a large component of HAG, but other non-construction related factors influence HAG.

All schemes to completion stage – 35 schemes.

- 6.27 The total Devanha Offer of Grant HAG target for the 35 signed off schemes, comprising 757 units, decreases by -8.02% at Scottish Government validation stage. The actual HAG as signed off by Scottish Government is 9.22% *below* the Offer of Grant target. **For the 35 schemes for which data is available therefore the Devanha HAG target has been achieved.** These schemes include a mix of tenure (rented and NSSE), framework and non framework and are drawn across all 9 tranches. Variance from target on individual schemes is considerable, from almost 80% reduction through to increase of almost 47%. It is to be expected that works cost variation will cause HAG variation in individual schemes, but there are other influencing factors contributing to variation relating to calculation of grant in NSSE schemes and rent setting issues.

Tenure – NSSE v Rental (HAG)

- 6.28 Twenty five of the 35 schemes are for Rental and the remaining 10 are NSSE. The Offer of Grant HAG target for the rental schemes decreases by -2.53% at validation stage. The actual total HAG as signed off by Scottish Government for Rental schemes is **-8.98% below the Offer of Grant target. For this subset of schemes the Offer of Grant target has been met.**
- 6.29 For NSSE schemes the Offer of Grant HAG target decreases by -15.81% at validation stage. The actual total HAG as signed off by Scottish Government is **-10.56% below the Offer of Grant target. For the NSSE subset of schemes the Offer of Grant target has been met,** and performance is slightly better than Rental schemes in percentage terms although the data sample is smaller and, as mentioned above, may reflect grant calculation and rent setting considerations which are outside Devanha's control.

All schemes – Framework v Non-framework (HAG)

- 6.30 Nineteen of the 35 schemes are framework and the remaining 16 are non-framework. The Offer of Grant HAG target for the framework schemes increases by 0.5% at validation stage. The actual total HAG as signed off by Scottish Government is -0.33% below the Offer of Grant target. **For the**

framework subset of schemes the Offer of Grant HAG target has been met.

- 6.31 For Non Framework schemes the Offer of Grant HAG target decreases by -18.34% at validation stage. The actual total HAG as signed off by Scottish Government is -20% on the Offer of Grant target. **For the Non Framework subset of schemes the Offer of Grant target has therefore been met** and the performance is better than framework schemes. Many of these schemes will have benefited from going to the marketplace at a more favourable part of the economic cycle and the MVPI schemes were subject to a separate negotiation.

Analysis by tranche (HAG)

- 6.32 When broken down by tranche there is no pattern of improving HAG performance apparent as shown in Table 6.6. However the number of schemes and units for analysis within each tranche does vary considerably, particularly since there are a number of schemes in tranches 5 to 8 which have yet to be signed-off. The sample is smaller meaning that a true like for like comparison is not carried out.
- 6.33 It is apparent from the data that there are large variations between HAG targets, both at Offer of Grant and validation stage, and actual Grant expenditure at scheme level. In particular the variation exhibited between actual grant and validation stage grant is greater than for the same works cost comparison. These large variations at scheme level result from a number of factors unrelated to procurement efficiency and the Devanha process. Features affecting grant are not the same as for cost, e.g. rent setting and timing of rent setting.

TABLE 6.3
SUMMARY analysis comparing targets and actual Works Cost : COMPLETED & SIGNED-OFF SCHEMES
WORKS COST

	All	NSSE	Rental	Framework	Non Framework
schemes	35	10	25	19	16
units	757	163	594	399	358
D target	65,855,039	12,594,006	53,261,033	37,935,712	27,919,327
validated	69,503,884	13,906,845	55,597,039	42,462,540	27,041,344
actual	68,630,979	13,047,954	55,583,025	41,486,734	27,144,245
Validated on D target	5.54%	10.42%	4.39%	11.93%	-3.14%
Actual on SG validated	-1.26%	-6.18%	-0.03%	-2.30%	0.38%
Actual on D target	4.22%	3.60%	4.36%	9.36%	-2.78%

TABLE 6.4
SUMMARY analysis comparing targets and actual HAG : COMPLETED & SIGNED-OFF SCHEMES
HAG

	All	NSSE	Rental	Framework	Non Framework
schemes	35	10	25	19	16
units	757	163	594	399	358
D target	58,301,343	8,910,628	49,390,715	31,942,884	26,358,459
validated	53,625,949	7,501,695	46,124,254	32,101,963	21,523,986
actual	52,925,348	7,969,552	44,955,796	31,839,047	21,086,301
Validated on D target	-8.02%	-15.81%	-6.61%	0.50%	-18.34%
Actual on SG validated	-1.31%	6.24%	-2.53%	-0.82%	-2.03%
Actual on D target	-9.22%	-10.56%	-8.98%	-0.33%	-20.00%

TABLE 6.5
ANALYSIS by TRANCHE, WORKS COST - : COMPLETED & SIGNED-OFF SCHEMES

Works
cost

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9
Number of schemes	13	1	3	7	2	3	1	3	2
Number of units	288	27	53	141	58	44	22	116	8
Devanha target	21,270,977	2,434,930	4,434,682	13,699,880	5,869,727	4,488,710	2,341,074	10,513,492	801,567
SG validated target	22,953,255	2,884,424	5,469,185	14,659,120	6,258,246	4,991,282	2,411,037	9,073,598	803,737
Actual	23,158,590	2,987,029	5,858,323	14,725,281	5,184,321	4,499,980	2,225,745	9,115,602	876,108
Validated on D target	7.91%	18.46%	23.33%	7.00%	6.62%	11.20%	2.99%	-13.70%	0.27%
Actual on SG validated	0.89%	3.56%	7.12%	0.45%	-17.16%	-9.84%	-7.69%	0.46%	9.00%
Actual on D target	8.87%	22.67%	32.10%	7.48%	-11.68%	0.25%	-4.93%	-13.30%	9.30%

TABLE 6.6
ANALYSIS by TRANCHE, HAG - : COMPLETED & SIGNED-OFF SCHEMES

HAG

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9
Number of schemes	13	1	3	7	2	3	1	3	2
Number of units	288	27	53	141	58	44	22	116	8
Devanha target	18,612,194	2,185,055	4,164,860	11,531,877	5,091,500	3,847,643	1,929,282	10,361,646	577,286
SG validated target	16,366,177	2,618,313	4,863,618	11,191,675	4,543,908	3,948,912	1,348,563	8,179,540	565,243
Actual	16,041,767	2,574,824	4,812,921	11,689,429	4,174,552	3,830,629	1,233,487	7,879,644	688,095
Validated on D target	-12.07%	19.83%	16.78%	-2.95%	-10.76%	2.63%	-30.10%	-21.06%	-2.09%
Actual on SG validated	-1.98%	-1.66%	-1.04%	4.45%	-8.13%	-3.00%	-8.53%	-3.67%	21.73%
Actual on D target	-13.81%	17.84%	15.56%	1.37%	-18.01%	-0.44%	-36.06%	-23.95%	19.19%

**Works Cost and HAG analysis for ALL schemes to validation stage
All schemes to Validation stage – 51 schemes. (Works cost, Table 6.7)**

6.34 The total Devanha Offer of Grant works cost target for the 51 signed off schemes, comprising 1383 units, amounts to £131,964,986 adjusted for agreed inflation. At Scottish Government validation stage this rises to 138,785,681 - an increase of 5.17% on the Offer of Grant target. On this basis, unless savings are made and the signed off actual costs are reduced the Offer of Grant target will not be achieved. These schemes include a mix of tenure (rented and NSSE), framework and non framework and are drawn across all 9 tranches.

Tenure- NSSE v Rental (works cost)

6.35 35 of the 51 schemes are for Rental and the remaining 16 are NSSE. The Offer of Grant works cost target for the rental schemes equates to £104,854,314. At Scottish Government validation stage this rises to £109,899,020- an increase of 4.81%. For this subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would not be met.

6.36 For the 16 NSSE schemes the Offer of Grant works cost target equates to £27,110,672. At Scottish Government validation stage this rises to £28,886,661 - an increase of 6.55%. For the NSSE subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would not be met.

Framework v Non-framework (works cost)

6.37 32 of the 51 schemes are framework and the remaining 19 are non-framework. The Offer of Grant works cost target for the framework schemes equates to £96,089,793. At Scottish Government validation stage this rises to £104,442,389 - an increase of 8.69%. For this subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would not be met.

6.38 For Non Framework schemes the Offer of Grant works cost target equates to £35,875,193. At Scottish Government validation stage this reduces to £34,343,292- a decrease of 4.27%. For the Non Framework subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would be met. Thus the performance is better than framework schemes.

All schemes to Validation stage – 51 schemes. (HAG, Table 6.8)

6.39 The total Devanha Offer of Grant HAG target for the 51 signed off schemes, comprising 1386 units, amounts to £120,864,158 adjusted for agreed inflation. At Scottish Government validation stage this reduces to £113,128,516 - a decrease of 6.40% on the Offer of Grant target. On this basis the Offer of Grant target will be achieved. These schemes include a mix of tenure (rented

and NSSE), framework and non framework and are drawn across all 9 tranches.

Tenure- NSSE v Rental (HAG)

- 6.40 35 of the 51 schemes are for Rental and the remaining 16 are NSSE. The Offer of Grant HAG target for the rental schemes equates to £100,436,736. At Scottish Government validation stage this reduces to £95,662,554- a decrease of -4.75%. For this subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would be met.
- 6.41 For the 16 NSSE schemes the Offer of Grant works cost target equates to £20,427,422. At Scottish Government validation stage this reduces to £17,465,962- a decrease of -14.50%. For the NSSE subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would be met.

Framework v Non-framework (HAG)

- 6.42 32 of the 51 schemes are framework and the remaining 19 are non-framework. The Offer of Grant works cost target for the framework schemes equates to £86,966,044. At Scottish Government validation stage this reduces to £85,407,374- a decrease of -1.79%. For this subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would be met.
- 6.43 For Non Framework schemes the Offer of Grant works cost target equates to £33,898,114. At Scottish Government validation stage this reduces to £27,721,142- a decrease of -18.22%. For the Non Framework subset of schemes, and based only on a comparison between Offer of Grant and validation stage, the Offer of Grant target would be met.

TABLE 6.7
SUMMARY analysis comparing Devanha target and Validated Works Cost : ALL Schemes

Works Cost						
	All	NSSE	Rental	Framework	Non Framework	
schemes	51	16	35	32	19	
Units	1386	311	1075	990	396	
D target	131,964,986	27,110,672	104,854,314	96,089,793	35,875,193	
Validated	138,785,681	28,886,661	109,899,020	104,442,389	34,343,292	
Validated on D target	5.17%	6.55%	4.81%	8.69%	-4.27%	

TABLE 6.8
SUMMARY analysis comparing Devanha target and Validated HAG : ALL Schemes

HAG					
	All	NSSE	Rental	Framework	Non Framework
schemes	51	16	35	32	19
units	1386	311	1075	990	396
D target	120,864,158	20,427,422	100,436,736	86,966,044	33,898,114
validated	113,128,516	17,465,962	95,662,554	85,407,374	27,721,142
Validated on D target	-6.40%	-14.50%	-4.75%	-1.79%	-18.22%

Trend in performance – Validation stage

6.44 Validation stage data is available for all 51 schemes of the programme. Table 6.9 below shows that for those signed off schemes where actual costs have been reconciled, the Devanha works cost target overrun at validation stage was only slightly less than for those schemes which remain to be signed-off (i.e. where actual cost and grant data not available at the time of writing). This suggests that if actual data at sign-off stage were available for all schemes, the pattern would be similar to that for the 35 schemes where completion data is available i.e. the actual cost would be slightly below validation stage works cost target, but slightly above Offer of Grant target. It can reasonably be concluded that the data on which this report is based is representative of the Devanha programme as a whole, and that the basis for the conclusions and recommendations being presented are robust. Extrapolating trends for target and actual HAG across the whole programme are even more problematic due to the number of variables affecting HAG.

Table 6.9 Trend between Validated and signed-off

	SG validated against Devanha target	
	Works Cost	HAG
All schemes (51)	5.17%	-6.40%
Signed-off schemes (35)	4.22%	-8.02%
Schemes not signed-off (16)	4.80%	-4.89%

Evaluation of Value for Money – Works cost target

6.45 Of the 35 completed and signed-off schemes only 12 have actually met the Devanha works costs target, of which 8 are non framework. Therefore only 4 of the 35 framework schemes (11%) have actually met works cost target (Table 6.10). However, it would be an oversimplification to conclude that this in itself is evidence of exceptional performance or procurement efficiency for these four schemes. Subsequent revisions to targets have been carried out and agreed between contractor and project manager to account for particular scheme and site characteristics and changing market conditions. A clear example from the table below is Denmark St Fraserburgh NSSE, which shows a reduction on Offer of Grant target, but was actually one of the few schemes subject to pain share by the contractor since the actual cost exceeded the final adjusted target.

Table 6.10 - Framework schemes achieving Works Cost target

Scheme	Actual cost on Devanha target	Actual cost on Validated target	Adjusted target met (Yes/No)
Deveron Rd, Huntly NSSE	-30.03%	-34.61%	Yes
Denmark St, Fraserburgh NSSE	-14.04%	-27.11%	No
Deveron Rd, Huntly R	-7.11%	-12.80%	Yes
Hillside, Portlethen (Drum)	-4.93%	-7.69%	Yes

Gain and Pain share on Scheme Completion costs

6.46 Of the 35 completed and signed off schemes, 16 of the schemes show gain share and 5 show pain share as a result of being above or below adjusted target. The remaining 14 delivered to target. On this evidence, with only 14% of schemes (5 out of 35) in a „pain“ situation (Table 6.11) at sign off then **the majority of schemes have performed to adjusted target or better at final sign off stage**. Comparing this to Devanha Offer of Grant target where 66% of schemes (23 out of 35) are in excess of this it is clear that the targets do not reconcile, which serves to confuse the overall VFM assessment. On the one hand there is the Devanha Offer of Grant works cost target for each scheme and on the other hand there is the adjusted target which is only known when the risks become apparent and all compensation events are accounted for. The Devanha Offer of Grant target is a notional benchmark and the adjusted target is a reflection of actual site and scheme specific conditions. If the Devanha Offer of Grant target is being overshoot in most cases then arguably the target is unrealistically low and unachievable even with an efficient procurement process. Of course the counter to this is that targets were deliberately challenging and that Devanha programme should have delivered.

6.47 The actual cost of 3 of the schemes were clearly below both the Offer of Grant and Scottish Government validated targets, but the fact that a scheme incurring pain share is apparently below these targets (Denmark St, Fraserburgh NSSE) demonstrates that procurement efficiency and good practice cannot be concluded from the Scottish Government target figures.

Table 6.11 Schemes with Pain share (Framework and Non Framework)

Tomintoul (NSSE)	Non-Framework
Denmark St, Fraserburgh NSSE	Framework
Distillery Site, Oldmeldrum NSSE	Framework
Distillery Site, Oldmeldrum Rent	Framework
Tomintoul (Rent)	Non-Framework

Conclusions

6.48 Performance by disaggregated elements of the programme: rented/shared equity, framework/non-framework in relation to HAG and cost targets are set

out in the conclusions in Chapter 13. In summary, the only element of the programme to meet the Offer of Grant works cost target was the non-framework schemes. The programme as a whole and all of the above mentioned sub-sets met the target Offer of Grant HAG target. However HAG performance is not a reliable indicator of construction or procurement efficiency due to the other factors which influence its final calculation.

- 6.49 The expectation was that the Devanha process would provide for incremental improvement in works cost performance. However, the evidence for this was very weak when performance is analysed by tranche and it is concluded that continuous improvement in procurement efficiency was not demonstrated by Devanha over the duration of the programme. The number of schemes and units within each tranche does vary considerably though, meaning that a true like for like comparison cannot be carried out.

7 PROCESS, COLLABORATION AND VALUE FOR MONEY

Devanha Works Cost Target Setting

- 7.1 It is debatable whether the mechanism for calculating the Devanha Offer of Grant works costs target at scheme level was realistic, given the complexity and variability that existed across schemes. The Devanha target accounted for house type and was weighted accordingly for each scheme but did not account for the range of technical and design risks that existed and were subsequently accounted for in the adjusted target. These typically related to groundworks, utilities and infrastructure for which the contractor is compensated and the client carries the risk. This raises the more fundamental question of whether NEC form of contract where the client does bear much of the design risk is appropriate for social housing procurement programmes. A further significant design risk related to special needs adaptations which were not accounted for in the original design or cost targets, and again the client bore the cost and time risk resulting from redesign and rework on site. It is also open to question as whether the ambitious Devanha Offer of Grant works cost targets actually incentivized procurement efficiency and savings. Although there was a level of awareness of the Offer of Grant targets, the adjusted targets were considered the „real“ targets that contractors worked toward.

Devanha Process and Influence on Cost Savings and Procurement Efficiency

- 7.2 In addition to the monitoring of cost and grant targets, the evaluation of Devanha involved qualitative data collection through the Core Group focus group workshops and confidential semi structured one-to-one interviews. Both were valuable in understanding experiences of the Devanha participants and gaining an insight into how the procurement process worked from the various developer RSL, consultant and contractor perspectives. In particular, the interviews at the end of the programme provided a reflection on overall value for money and the influence that the Devanha process had on costs and value.
- 7.3 One of the aims of bulk procurement programme was to secure incremental improvements in efficiency gains/cost savings year on year from the Devanha framework approach. However this has not been borne out by the evidence in that there is no pattern of increased savings from tranche to tranche. A strong impression gained from the interviews across Devanha participants was that there was a large element of chance as to whether targets were met and performance was good or bad, and this resulted from the site and other technical characteristics. As such, the influence of the Devanha process on VFM and cost savings, at scheme level, is difficult to evaluate numerically.

VFM, Competition and the Devanha Process

- 7.4 The competitiveness of the Devanha process is a key determinant of VFM. The difficulty of any framework agreement is that, in securing the benefits of a long term framework of closer collaboration and supply chain integration, the price advantages of traditional lowest cost competitive tendering are not fully realised. Although the open book costing process ensured open market prices from subcontractors and suppliers were reflected in adjusted target costs, the level of price competition was arguably not as high as would have been secured through traditional tendering.
- 7.5 The approach in Devanha was to allocate all the workload to framework contractors from the outset. It may have been advisable to introduce a staged allocation of schemes which could have reviewed contractor performance mid way through the programme for the purpose of further allocation of work. This would provide an additional mechanism to ensure competition between framework contractors is maintained throughout a bulk procurement programme.

Value for Money and the views of Devanha

- 7.6 The ultimate question is whether Devanha bulk procurement offered VFM when compared to traditional procurement approach. Responses from across the range of participants varied from possibly to yes. No one was of the opinion that Devanha did not offer value for money compared to a traditional procurement approach with contractors more positive in response to this question. They readily pointed to the open book costing process which meant that RSLs did share in the benefits of keener material and supplier prices as the market cooled. Of course RSLs would also have benefited from market conditions through traditional open tendering procurement. RSLs were more equivocal/less convinced that they were able to benefit from increased price competition in the open market as the programme progressed. A key issue related to timing, in that economic and market conditions at the end of Devanha were completely different to those at the start and could not reasonably have been foreseen. As such what could bluntly be termed a „sellers“ market became a „buyers“ market - conditions where traditional competitive tendering in the open market provides the keenest prices. However, it should be borne in mind that VFM extends beyond keenest price and lowest capital cost.

Implementation and Operation of the NEC Approach.

- 7.7 The benefits and limitations of the Devanha bulk procurement process have been considered and reported on at each round of the research. The Core group asserted there was a higher level of collaboration than experienced through traditional procurement and this manifested in better communication, trust, open book costing and sharing of buildability experience. The January 2012 closeout interviews largely supported this, though there was a view expressed that not all framework contractors fully bought into the collaborative approach.

- 7.8 The lack of understanding and experience of the NEC procurement process that is fundamental to operational aspects of Devanha procurement were clear from early on in the process, despite the engagement of a procurement consultant from the outset. In Round 2 we reported on the difficulties related to the operational aspects of implementing the NEC Devanha approach. Poor preparation for the Devanha approach was also widely observed at the close out interviews. There was a strong and consistent view that the procurement consultant workshops and training failed to prepare the team adequately and the lack of time upfront for development work was widely considered a problem.
- 7.9 The importance of extending training and awareness of the Devanha process and associated KPIs to site level personnel was not fully realised until late on in Devanha. Only when the influence site personnel had on meeting KPIs, and therefore influencing gain share became clear was this fully realised as schemes were completed and signed off. In particular, the defects KPI had great importance in this respect. Communication of Devanha targets throughout the organisation was slow. Throughout the duration of Devanha, the Offer of Grant targets themselves were not generally known at Core Group level.
- 7.10 For the most part, partnering did not extend beyond the first tier contractors. This wasn't from a lack of willingness or conscious inaction. Rather, the small size and fragmented nature of subcontract activity meant that real benefits from this hadn't been identified. The lack of a true Devanha specification, uniformly applied over all projects from the start, meant that the opportunity for bulk buying and strategic involvement of subcontractors was severely limited.

Open Book Costing

- 7.11 Mid way through Devanha the impression was of contractors undergoing a cultural change in coming to terms with open book costing. By the end of Devanha, Chap and Bancon were fully engaged in open book costing and cited this as means of passing savings from keener price competition on to RSLs when the question of VFM was raised. The open book costing process is a contractual feature of NEC and the contractors have been compliant with this. As indicated in the report, Robertsons did not respond to any invitation to participate in interviews to explore their approach and experiences. It is the case that savings are passed on, but the contractor shares the savings whereas the client would secure all of these under full scheme by scheme competitive tendering. Evidence of this may be seen in non-framework schemes where prices were very keen. There is undoubtedly more market testing under traditional lowest cost competitive tendering, though at the expense of collaboration and other gains in value and quality.

Devanha Offer of Grant Works Cost Targets and Scottish Government Validated Targets.

- 7.12 In the concluding interviews the consistent view was that the Offer of Grant targets were unrealistically low and unachievable. Originally, the targets had been proposed by Communities Scotland and accepted by Devanha RSLs as aspirational targets which were the basis for acceptance of the Offer of Grant. However, interviewees felt that there was no apparent justification for the target and there was no involvement of consultants or contractors in target setting. Through time, and with inflationary adjustments, this target was seen as increasingly divorced from the reality on the ground. Clearly, given the views expressed by interviewees, the justification for the target did not permeate effectively to the level of those running the schemes.
- 7.13 A single target (with weightings to adjust for different house types) was overly simplistic and didn't take account of the many site and infrastructure factors that influence costs. Although there was some level of awareness of the Devanha targets by the contractors and consultants, the Scottish Government validated targets were considered as the „real“ targets. At scheme level the ability to meet the target related to the extent of difficulties with the site or other technical issues, rather than application of any Devanha process initiatives. Also a frequently cited reason for rising costs was late design changes, in particular adaptations for special needs not considered at the design stage. The waste, inefficiency and extra cost to the RSL of such rework are obvious. Variations are an almost inevitable feature in the course of construction projects. The key question is who bears the risk for these and under the NEC approach the RSLs absorb much of the risk through compensation events.

Compensation Events and the NEC Approach

- 7.14 The Devanha process had little bearing on the type or extent of compensation events in schemes. There was a consistent view that these variations would have happened anyway as they were largely a consequence of technical and site specific issues such as ground conditions or changing requirements and design changes as schemes progressed.

Gain / Pain Share and KPIs

- 7.15 Pain has been limited and there was mostly gain as a result of favourable market conditions following the validation of targets. Schemes ostensibly performed well because they were delivered below target but this was as a result of Scottish Government validated target being set before the impact of much keener subcontractor prices was felt. Falling prices rather than contractor behaviours or Devanha process was the reason for the performance. It is therefore arguable the extent to which contractors earned the gain. Nevertheless, the Gain/Pain share mechanism allowed for this.

8 PROCUREMENT CONSULTANTS

- 8.1 Devanha Phase 2 funding was dependent on the use of an independent procurement consultant to provide training, and embed collaborative working linked to the use of NEC contracts and partnering. The Evaluation investigated the impact of the use of a procurement consultant through two questionnaire surveys, interviews and workshops. The various strands of research highlight tensions and dissatisfaction but also some positive results of involvement of the procurement consultant.
- 8.2 A questionnaire was sent out twice to the Devanha CEOs, other board members, staff, Development Directors and Project Managers to evaluate the effectiveness of a procurement consultant in the implementation of the Devanha programme. The first questionnaire was completed towards the beginning (summer 2008) and the second at the end of the programme (March 2012). There were 11 responses from a possible 17 to the 2008 questionnaire and 10 from a possible 16 to the 2012 questionnaire.
- 8.3 Table 8.1 shows the responses to questions which relate to issues which could be broadly defined as technical training.

Table 8.1 Technical Training - Contract

Devanha influencing understanding of NEC Contracts	1	2	3	4	5	CWC influencing understanding of NEC Contracts
2008	0	0	4	3	4	2008
2012	0	2	3	3	2	2012

- 8.4 In both years the majority of respondents saw the influence in understanding contracts as being primarily from the procurement consultants. This would be consistent with the consultants fulfilling their role. Interestingly, this was less pronounced in 2012 indicating that Devanha had increased in its confidence in relation to the contract. As shown in table 8.2, the procurement consultants were also seen as having led on understanding of open book cost management. This should, however, be seen in the context of relatively poor embedding of this technical training at the right levels, as discussed elsewhere in this report.

Table 8.2 Technical Training – Open Book

Devanha leading on understanding of Open book cost management	1	2	3	4	5	CWC leading on understanding of Open book cost management
2008	0	0	4	4	3	2008
2012	0	1	1	5	3	2012

- 8.5 Changing culture and work practices from the traditional to a more collaborative approach is an essential element of the modernised procurement agenda. The second major area explored in the questionnaire was the consultant influence on development of a collaborative team.

Table 8.3 Developing the Collaborative Team - Communication

Devanha influencing Improved Communication	1	2	3	4	5	CWC influencing Improved Communication
2008	1	4	4	5	1	2008
2012	1	5	3	1	0	2012

8.6 Views were fairly mixed on who had most influence on improved communication. This would seem appropriate and again the move towards Devanha having more influence later in the programme is consistent with Devanha taking ownership of the issue. However, this is not to say that communication was good. We have seen elsewhere in this report that communication with external stakeholders was a problem and that dissemination of Devanha practices throughout member and partner organisations did not always occur.

8.7 Across both surveys, respondents tended to see *customer focus*, *continuous improvement* and *creative problem solving* as being more influenced by Devanha. Once again this would be positive and consistent with Devanha taking responsibility for implementation of the programme, focus on improving quality and overcoming difficulties as they arose.

8.8 The questionnaire explored the question of leadership and empowerment. Table 8.4 shows that these issues were mostly seen as being influenced by Devanha.

Table 8.4 Leadership and Empowerment

Devanha influencing Leadership and Empowerment	1	2	3	4	5	CWC influencing Leadership and Empowerment
2008	0	5	5	1	0	2008
2012	1	7	2	0	0	2012

8.9 Leadership problems have limited Devanha’s successes over the whole programme. The consultants recognised this and in interview suggest that they offered to take a more active role than their original brief required. The consultant proposed to take on more of a role in implementation of structure change below the Board level where the consultant would act as a „change manager“ on an interim basis. This, they believed, could have provided interim leadership which Devanha could take over through time. The proposal was not accepted by Devanha.

8.10 Nonetheless, the procurement consultant had a role in facilitating change within Devanha and the surveys explored satisfaction with how well the consultant had fulfilled this role. A majority of respondents to the 2012 procurement questionnaire were dissatisfied with consultant performance in facilitating workshops, communication and changing working practices within Devanha. The procurement consultant criticised the level of competency achieved in collaborative working and believed that there had been little

change in the client or the supply chain, with an essentially traditional approach remaining.

- 8.11 Devanha members and partners believed they were already better informed of the issues pertinent to Devanha programme and the Procurement Consultant did not offer any significant input beyond organising the events. Several consultants and contractors arranged their own in-house training on topics in what they saw as a more relevant manner. This related particularly to „Open-book costing“. Some members were concerned that procurement consultant fees had been out of proportion to the service offered, and that value for money had not been achieved.
- 8.12 The procurement consultants believed that Devanha benefited from their involvement but that „inertia“ within Devanha was a limiting factor. They also noted that more could have been achieved at the workshops if the right people had attended; they had advised that there were too many senior managers and not enough people delivering the projects. This meant learning did not permeate down to the appropriate people in the organisations.
- 8.13 Some positive changes were associated with the use of a Procurement Consultant although the perception of these positive changes generally diminished from the beginning of the programme to the end. „Knowledge Sharing“ is consistently seen as a positive change arising from the consultant’s input. Positive views on „Collaboration across RSLs“; „Collaboration with Stakeholders and Supply Chain“; and „Identification of Goals“ were all evident but have all diminished in the view of respondents over the duration of Devanha. There were benefits from the use of the procurement consultant in relation to greater general awareness of collaborative practice and of the technical details of NEC contracts; new ways of working; introduction of open book; and provision of external cost validation.
- 8.14 The procurement consultant’s diagnostic analysis⁴ showed that there was improvement in Devanha performance in collaborative working but they believed that more could have been achieved if there had been more „drive“ on the part of Devanha. Research workshops held with Core Group members in 2010 confirmed greater awareness and use of aspects of the NEC contract although there were still significant deficiencies (as reported in discussion of the process elsewhere in this report). In particular, there was enthusiasm for the benefits brought by adoption of the *Gateway* process in development of projects.

Delivery

- 8.15 A Likert Scale was used in the surveys to indicate the extent of involvement in delivery of the programme. A score of 1 meant that delivery was solely carried out by Devanha and 5 meant it was solely carried out by the consultant. Table

⁴ A systematic rating against a four point scale based on interview. Potentially useful but caution has to be used in interpreting it, as it presents qualitative information in a quantitative format.

8.5 shows results from 2012 for three key areas of delivery where Devanha would be expected to lead but with support from the consultant.

Table 8.5 Involvement in Delivery (2012 survey)

	1	2	3	4	5	
Devanha leading on Open book cost management	0	4	3	3	0	CWC leading on Open book cost management
Devanha leading on Performance improvement and measurement	1	3	4	2	0	CWC leading on Performance improvement and measurement
Devanha leading on Scheme mobilisation	4	3	3	0	0	CWC leading on Scheme mobilisation
Devanha leading on Modern methods of construction	5	3	2	0	0	CWC leading on Modern methods of construction

- 8.16 The pattern of answers shown in table 8.5 supports the view that the procurement consults were acting in a supportive role while Devanha took the lead in delivery in all areas. Given the unfamiliarity of the open book process it is reasonable that the consultants were seen to have a greater role than in other areas.
- 8.17 Performance improvement and measurement was an area where the consultant had a role. In practice there was a large difference between Devanha's expectations and what was achieved in the area of measurement. Through a number of workshops and interviews Devanha, its members and partners expressed dissatisfaction over the quality of data which was available for monitoring cost, scheme progress and performance.
- 8.18 The consultant had offered to produce a web based data management system which would simplify scheme data collection and allow the board and project managers to monitor and manage schemes efficiently. However, although this system was set up, it was never used and was seen by Devanha as not fit for purpose. The research team were able to witness the Programme Director taking large amounts of data from a variety of sources to try to populate the web based tool without any practical output and then producing alternative spreadsheets which were, instead, used to inform the Board and assist it in programme monitoring and control.
- 8.19 The consultant believed that the failings in this respect were not a function of the web based tool but occurred because Devanha did not use it as it was intended. A lot of data was held on the platform but Devanha did not devolve responsibility for maintaining it to the Project Managers as they should have. It was therefore too onerous for the Programme Director to maintain. A consultant representative stated that he tried to push Devanha to devolve this function but with no success.
- 8.20 Availability of data to assist in performance management and incentivisation was also problematic. Devanha and its partners were unable to produce data which would inform understanding of performance against KPIs early enough in projects for this to incentivise contractor performance as had been intended. Devanha and its partners viewed this as having been a failing in the system devised by the procurement consultants. The procurement

consultants also saw this as a problem but believed the KPIs were set up appropriately but were not used properly in project monitoring status reports. Rather, they were completed by Clerks of Works at the end and therefore no use in incentivisation.

- 8.21 It is clear that the content and timing of data available for the Board to manage the programme was always a problem. KPI data was also available at the wrong time to incentivise improved performance. There are conflicting views over the causes of these problems and they were a source of tension and dissatisfaction between Devanha and its procurement consultants. That these difficulties were never resolved is another example of lack of strong leadership within Devanha. Devanha took responsibility for *creative problem solving* but a managing director would have had responsibility for resolving the problem and less than adequate fixes would not have been allowed to persist throughout the programme.

Conclusion

- 8.22 The use of a Procurement Consultant was considered by many Devanha members to be necessary for the introduction of different ways of working. This was particularly important for the financial and contractual framework established by the use of NEC and „Open-book costing“. There was clearly some important assistance given in the use of NEC.
- 8.23 Effort expended in creating a web based tool was wasted as this was unusable by Devanha. Neither Devanha nor its project managers believed that the system contained data in a form which was compatible with their needs; data which was collected had to be manipulated to fit the requirements of the tool. The commissioning of such a tool must include ensuring that it aligns with the data available to and required by the client and the systems in place within the user organisations. This did not occur in Devanha.
- 8.24 Many participants in Devanha did not believe that the use of the Procurement Consultant was aligned to the needs of the Devanha members. Some consultees saw geographic separation as a cause of poor communication between the procurement consultants and Devanha.
- 8.25 The procurement consultant believed that Devanha and its partners had not learned the necessary competences of collaborative working but put this down to leadership issues and Devanha not being committed to the necessary improvements.
- 8.26 Given that there were a variety of areas of frustration which were not satisfactorily resolved, it could also reasonably be argued that a stronger, more focused leadership from Devanha could have addressed these issues in consultation with the procurement consultant and created more satisfactory outcomes.

9 QUALITY AND STANDARDS

- 9.1 Annual data capture forms, workshops and interviews were used to collect data and explore the issues of housing and quality standards. The data forms from 45 projects were received and included information on SAP ratings, mix of housing type, brownfield or greenfield status, approaches to Modern Methods of Construction (MMC) and use of Renewables. The interviews and workshops allowed the stakeholders (client, consultants and contractors) to explore these issues, and a range of topics, including specification and bulk procurement in more detail.
- 9.2 The Devanha Offer of Grant required the following:
- Improvements in environmental performance, sustainability and reductions in environmental impact, and;
 - Improvements in quality, productivity and value for money through the use of continued improvement activity.
- 9.3 The Core Group and the Performance Improvement Group including development directors/managers, project managers, contractors, and architects explored the issues of Housing Quality and the integration of Modern Methods of Construction (MMC) within the Devanha programme. They were effective in providing an opportunity for sharing learning across schemes and connecting separate organisations that were party to the Devanha agreement. The research team examined Specification documents and minutes from the Performance Improvement Group and the Core Group.

Environmental Performance and Sustainability

- 9.4 Devanha were committed to developing a range of housing units that had a low environmental impact in operational terms and made use of renewable material and renewable energy sources.
- 9.5 The Devanha agreement stated that all scheme developments achieve a SAP2001 rating of no less than 100 or equivalent. During the programme some schemes were evaluated using SAP2005. These schemes required a rating of 80 to comply with the Devanha agreement. Two early Section 75 schemes which pre-dated the Devanha agreement failed to meet this standard. These projects did not use the Devanha specification and were designed according to developers' specifications. Only four section 75 schemes exceeded SAP targets, contrasting sharply with the schemes delivered through the Devanha framework where 28 schemes exceeded the SAP targets, the remaining four meeting the target.
- 9.6 The introduction and use of renewable materials and alternative energy sources was embedded in the agreement for Devanha housing and quality standards. A wide range of approaches were adopted across the schemes to achieve this aim. While lots of positive steps were taken to address the sourcing of materials, products and components, the opportunity to maximise the potential of cross programme procurement was not achieved. This was

because the Devanha agreement was signed at a stage when a large proportion of detailed design work had been completed.

9.7 Many schemes were constructed using timber frame, developed and fabricated by local contractors. As Devanha progressed, the contractors evolved their approach to building timber frames, with the introduction of cassette units and refined panel systems. This provided opportunities for good control of quality in the build. This is evident in a number of schemes achieving better levels of air tightness than anticipated. However, the approaches taken by the three framework contractors were different and so this benefit was not evident in all schemes.

9.8 The focus on renewable materials and alternative energy appears to be on the improvement of the building fabric of the units to reduce energy consumption. A wide range of approaches is adopted across the forty five schemes. The following range of issues characterise the Devanha schemes:

- Waste Management strategies employed by the contractors to reduce the amount of material waste on site.
- Local sourcing of material, particularly concrete block, has been specified in a number of schemes. This reduces the transport cost and associated energy with moving materials large distances.
- Timber frame construction utilising locally sourced timber has been adopted to provide units by one contractor.
- Management of fill material between sites has optimised the re-use of site material. This was attributed to an individual contractor operating more than one site for the client.
- Some of the schemes have been „super-insulated“ which means that no central heating system is required, and in theory the occupants will not require to heat their homes at all.
- Air source heat pumps are being installed on a few schemes which will provide a low cost heating system for the units. (These were mostly framework schemes but they were also installed as part of the non-framework MVPI.)
- A number of schemes have high efficiency boilers and low energy lighting.
- One scheme has a central heating plant with underfloor heating, which will provide low-cost heating to tenants.

9.9 The ambitious SAP rating levels across the majority of Devanha schemes is the dominant cross programme achievement in relation to environmental performance and sustainability. This target has been instrumental in improving the performance of the units and leads to reduced heating costs and associated fuel poverty.

Devanha Standard Specification and Modern Methods of Construction

9.10 Devanha Phase 2 was committed to the promotion of building in higher quality as standard and within the agreed “target costs”. The aim of improving quality while reducing costs was seen as a significant challenge by stakeholders in

Devanha. It is generally perceived by client, contractors, project manager and architect that the quality of housing has improved through the delivery programme. No data on tenant satisfaction was available from completed schemes to provide an occupant viewpoint although this again is perceived to be largely positive by Devanha on the basis of informal feedback from tenants.

- 9.11 A Devanha specification was adopted early in the process, and this was used for all 45 schemes that were evaluated. The Devanha specification is based on the standard specification previously developed by Grampian Housing Association. This specification is based on working practices that have been used by the RSL and their consultants in previous projects. However, interpretation of the specification for individual Devanha schemes has resulted in a large number of variations across the programme. The causes of this are diverse, and include individual site constraints, planning considerations, RSL Development managers' preferences, Maintenance staff preferences, Contractor working methods, and supply chain issues. The ability to be flexible in applying the specification to schemes is clearly important for a programme of diverse projects, such as Devanha Phase 2. However, the inconsistent approach has made bulk procurement, standardised specifications and quality control more difficult to achieve. There is scope for greater standardisation and potential savings than was achieved in Devanha.
- 9.12 The Core Group and the Performance Improvement Group considered specification issues at regular intervals throughout Devanha, with the aim of identifying processes, and components that could be adopted across the programme. These groups explored the use of alternative methods of construction and standardisation of component specification. This included the following: Windows; Doors; Ironmongery; Sanitary Ware; Kitchen Units; and Boilers. This has resulted in cross programme efficiencies in procuring key repetitive components. There was also clear development of standard house types, one of the key successes of the framework, which were used through most of the later framework schemes. A few schemes unable to adopt standard house types were influenced by site or planning constraints. In general the standard house type has been accepted as a positive benefit in achieving quality improvements; connected to reduced design time, and the ability to use standard approaches and repetition in building the houses. This has advantages in terms of improving contractor processes on each unit and scheme, and enabling learning to be passed from one scheme to the next.
- 9.13 There has been a focus on achieving best quality within the budget in the selection of these components, which is a benefit of the scale of the development programme. One example of this is the reduction in the price of aluminium clad windows to the equivalent price of timber only windows, experienced in the delivery of the Devanha programme. This has resulted in the higher specification window being used as standard. This offers an increase in quality and potential savings of £10k per annum in maintenance costs to the RSL. However, this advantage has not been shared across the whole programme where four or five different window types are used.

- 9.14 The economic conditions that Devanha experienced resulted in highly competitive prices for some components. Where prices had been fixed this advantage was reduced. However, price certainty meant that Devanha could forecast spending more effectively. There does not appear to be a consistent pattern on the cost savings offered by bulk procurement and the framework agreement. Some cross programme advantages have been available due to the scale of Devanha, primarily associated with continuity of work for suppliers and sub-contractors. Specifications were different between RSLs, architects and contractors on individual schemes, and while efforts were made to consolidate specification to a programme level, this was often after schemes had been designed to a detailed level.
- 9.15 Significant learning from the specification development was shared by the Core and Performance Improvement groups throughout Devanha. It is recognised that putting this learning into practice has been affected by the timing of scheme delivery. Some difficulties arose in negotiating with some of the suppliers. These difficulties include: failure to achieve a good price; continuity of supply from smaller sub-contractors; quality of components.
- 9.16 The Devanha Specification was used across the whole programme. The schemes evaluated in 2008 all used the standard specification without any significant changes. There is evidence of some significant changes being made to specification in the new schemes from 2009 onward. All schemes used the Devanha specification for the basis of the design during validation stage. Six schemes made significant changes to the specification. In three cases this was due to the location or type of unit: Timmermarket is providing flats above a medical centre; Mintlaw 2 Sheltered and Holland Street both had special tenant requirements. The other three schemes that had significant differences to the Devanha specification were making use of innovative methods of construction. Two of the schemes have been super-insulated which removes the need for central heating. The other scheme has been insulated to a very high standard.
- 9.17 The final scheme to be delivered by Devanha is the large Donside project. This scheme is currently under development and incorporates a range of innovative features. It is anticipated that this scheme will incorporate learning from earlier schemes. However, ambitious design solutions have resulted in complexities in the delivery of the scheme. The difficult nature of the site (contaminated industrial land; flooding; access) has created further problems, although this would have been the case regardless of how the project was procured. This scheme was seen as the flagship project. Due to a range of factors it may not offer the benefits aspired to by working in a framework agreement.
- 9.18 Devanha committed to explore the potential for new innovation and modern methods of construction. The focus of activity was on the development of off-site timber frame construction, resulting in the adoption of a number of innovations in the use of timber. This included cassette floor panels, closed-panel wall construction and refining of the timber frame products. While these are not unusual or particularly large step changes, they offered opportunities for process improvement, and quality improvements in the housing. The

contractors who were involved in developing improved timber components and frames benefitted from this process in terms of increasing expertise and market advantage that this potentially offers. This had an immediate reciprocal benefit to Devanha in the quality of the housing being offered.

- 9.19 Incorporation of bathroom „Pods“ into the construction, and their costing were explored extensively. This included site visits to manufacturers and investigation into the delivery of „Pods“ by a framework contractor. However, it was concluded that „Pods“ were not likely to offer any significant cost savings. Difficulties were also identified with co-ordination of the „Pods“ into the overall construction and if any later adaptations were required by tenants.
- 9.20 Off-site fabrication of large scale timber frame panels was utilised on a number of schemes. While cost savings are not evident, it is anticipated that improved quality for the same cost as on-site construction will be the main benefit for Devanha adopting this approach.

Conclusions

- 9.21 The housing and quality standards achieved by Devanha have generally been very good. The approach to improving quality has been driven by a commitment by the stakeholders to achieving a high standard of housing. The focus of the Devanha programme has been on the reduction of cost, as per the agreed targets. This has made the target of increasing quality extremely challenging. Nevertheless, this has been achieved in many ways across the programme. These range from improved quality in window specification to whole timber frames, and have generally been achieved by a consistent and determined approach by all stakeholders to improving the quality of the housing.
- 9.22 Where this has been less successful is the timing of improvement initiatives (workshops; sharing of lessons learned) occurring after significant design decisions have been made. This would have been improved by agreement at a very early stage in the framework on key cross programme quality and specification issues. The pressure of reducing costs has removed some of the opportunity to explore innovative approaches, like pod-construction, due to a concern over cost risk. This has possibly reduced the uptake of innovative approaches and products at programme level that may have offered quality and cost benefits.

10 FRAMEWORK AGREEMENT

- 10.1 The „Framework Agreement“ agreed by Devanha has set out a number of objectives. This led to the development of KPIs (Key Performance Indicators) to assess the overall performance of the programme delivery. These KPIs were used to evaluate key areas which were considered important to the success of the initiative. Some of the KPIs set out in the original agreement were not retained due to difficulties in measurement (eliminate the adversarial approach; enhancement of service provider’s reputation). Several KPIs were used to establish the Incentivisation Model which was based in the principle of Gain-share/Pain-share. These KPIs are: Zero health and safety incidents; Greater predictability of out-turn cost and programme; and Right first time with zero defects. They were measured and used to establish the financial pain or gain shared by the contractor and client.

Key Performance Indicators

- 10.2 Zero health and safety incidents: Scheme reports show eight „reportable accidents“ across the programme of works on site. The overall record is very good for Devanha, and demonstrates a high standard of working conditions with the framework contractors.
- 10.3 Predictability of programme: This was forecast at two points, scheme approval and at practical completion. At scheme approval there seems to be far less predictability than at practical completion. This is as expected, due to more complete information on site conditions and the exact nature of construction programme at practical completion stage. Once on site schemes appear to have been managed well in terms of completion times. Data is available for 29 schemes of which 11 schemes had reached completion ahead of the planned date, a further 11 had completed on time. Only 7 schemes had completed later than contractually agreed. Generally the programme of works has had a very good record of programme predictability. The Section 75 schemes, where the Framework Agreement was not applicable, appear to have a similar predictability, so there is no evidence to suggest that the framework agreement is the cause of the good performance on programme.
- 10.4 Defects: The incidence of defects has been highly variable. This appears to have been as a result of the different interpretation of defects made by clerks of works. In some cases individual marks on walls were recorded individually, while the same scale of defect may be recorded as a single defect on another scheme. The scheme reports show some schemes with 8 defects and others with over 100. The inconsistency has been a source of frustration for some of the stakeholders, with a direct influence on the pain share apportioned to contractors.

Framework Objectives

- 10.5 Other objectives included in the framework, but not used within the within incentivisation model for Devanha are:

- Team working and consideration of others;
 - Eliminate adversarial approach;
 - Employer and tenant satisfaction;
 - Enhancement of Service Provider's reputation;
 - Improvements in quality, productivity and value for money;
 - Improvements in environmental performance.
- 10.6 Two of the KPIs are incorporated in the framework agreement: *Team working and consideration of others*; and *Eliminate adversarial approach*. A diagnostic tool was used by the procurement consultant to capture many aspects of the team working and collaborative approach that are being fostered through Devanha. Areas which ranked highly were: *Collaboration and team work is a focus for senior management*; *Trust between „Managers“ and „people“*; *Good communication supporting collaboration*; and *Collaboration leading to reduced programme times*. Devanha members recognised the importance of teamworking, however, evidence from workshops and interviews suggests that „teams“ for the delivery of individual schemes had been dependent on the individual personalities involved.
- 10.7 All of the individual RSL partners in Devanha Phase 2 have tenant satisfaction surveys that are conducted with new tenants. It was the intention of Devanha to adopt a programme-wide approach to evaluation tenant satisfaction. This has not been established and it is not possible to evaluate if there has been any improvement in tenant satisfaction between pre-Devanha schemes and the housing that has been procured through the framework. The RSLs are satisfied that the housing is of a high standard, and generally the quality has improved. The improved thermal performance of the Devanha schemes should also deliver lower fuel costs to tenants.
- 10.8 Devanha Phase 2 has taken place during a sharp UK wide economic downturn in the construction industry. Members of Devanha believe that the programme activity has protected the individual consultants and contractors to a certain degree. The continuity of work through the programme has enabled the companies to reduce or avoid redundancies but it is not possible to quantify the effect that Devanha may have had on the economic well-being of the companies involved.
- 10.9 The legacy of Devanha for the consultants and contractors involved is varied. Some recognise the valuable experience gained by using new procurement approaches, and the introduction of open-book costing, lean construction methods, and innovative technologies. However, we have no evidence on whether the service providers' reputations have been enhanced.
- 10.10 Improvements in quality and environmental performance are evident in most of the schemes delivered by Devanha. The detail of this is dealt with in the previous chapter. These objectives were always in competition with the objective of reducing costs. That Devanha developed a range of schemes with consistently high quality and reduced environmental impact is a very positive outcome.

11 TRAINING AND EMPLOYMENT

Introduction

- 11.1 Part 9 of the Offer of Grant set a condition that Devanha would use the financial investment as “a catalyst to help train and provide additional employment opportunities for local people.” (p31) Devanha was set specific targets relating to process and outcomes. The key target was to deliver up to 150 additional Modern Apprenticeships and other employment and training opportunities over the period of the approved projects.
- 11.2 Devanha set up an initiative known as “Devanha Train” and employed a consultant, Engage Consulting, to co-ordinate this initiative. In the early stages of Devanha, the three framework contractors were involved in setting up these processes and opportunities for extending into the supply chain were explored.
- 11.3 As Devanha developed, it concentrated on the key targets of cost and grant efficiencies and other targets including training and employment received less attention. In the summer of 2008, Devanha decided not to continue to employ Engage Consulting.
- 11.4 The changed economic circumstances from 2008 called the attainment of targets for recruitment and training into question. Although a positive approach to training and employment was one of the selection criteria for appointing framework contractors, the main concern had become retention of qualified staff at a time of widespread redundancies elsewhere in the construction industry.

Setting Targets and Measuring Performance against Targets

- 11.5 Nevertheless, Devanha Train adopted a model developed by the Glasgow Housing Association based on the value of labour content in a contract as a whole and designed to give the necessary flexibility to account for the situation where an individual only spends part of their time on any one project. The results of this model are expressed in person weeks. Heriot-Watt University adopted this approach in gathering data for the M&E study and also sought data on „additionality“, i.e. the number of people who would not have been employed without the Devanha programme.
- 11.6 For each project data was sought on the total employment and training opportunities and this was divided into three subgroups based on Devanha’s priorities:
- New entrant trainees
 - Targeted recruitment
 - Unwaged work experience placements
- 11.7 It is perhaps indicative of the lower priority given to the training and employment objectives that Devanha was never able to complete monitoring

forms for all of the projects. Also, despite initial attempts by Engage Consulting to involve the section 75 developers, no returns were ever received from these. It is not possible to use the terms of the section 75 agreement itself to encourage involvement in training and employment initiatives as these are non-planning matters such. To achieve closer involvement of these developers would therefore require specific agreement between each developer and Devanha.

Performance against Targets

- 11.8 Summary data for the whole programme was available for the three framework contractors and detailed data was available from 23 projects, 21 of which had reached Practical Completion and two of which were still on site. All data was from framework schemes, none from Section 75 schemes.
- 11.9 Framework contractors provided summary figures for all apprentices taken on between the start of the programme and March 2012. At that time all but three small projects (all nearing completion) and the large Donside project were complete. Figures can be taken as close to the final number for the Devanha project as a whole. Data related to apprentices taken on since the start of the programme as a direct result of Devanha, some of whom may have subsequently completed their apprenticeships and not all were necessarily currently employed by the contractors.

Table 11.1 Apprentices

Firm	Apprentices
Bancon	12
CHAP	14
Robertsons	11
All Framework Contractors	37

Source: Devanha monitoring returns

- 11.10 Table 11.1 shows the total number of apprentices taken on by all contractors as a result of Devanha. This is just under a quarter of the original target of 150. However, it is likely that apprentices were also taken on by section 75 developers and it would be unfair to judge the contractors against the original target given the economic circumstances. In interviews in March 2012 contractors suggested they were taking on 3 or 4 apprentices per year which was a continuation of their existing policy. One noted that they had a continuing policy of recruiting school leavers and new trainees.
- 11.11 Targets were set for three categories of recruitment as shown in table 11.2: new entrant trainees⁵, targeted employment (which includes those identified through social enterprises) and a small number of unwaged placements for individuals. Targets were expressed in terms of the percentage of hours worked by each category of employee compared with the total number of hours worked on site by all employees.

⁵ New entrant trainee does not mean apprentices – these are identified in table 11.1.

Table 11.2: Targeted Recruitment (Person Weeks as Percentage of Total Weeks Worked by All Employees)

	Target (Percent)	Main Contractor Actual (Percent)	Sub Contractors Actual (Percent)	Total Actual (Percent)
New Entrant Trainee	10	7	1	4
Targeted Recruits	20	4	1	2
Unwaged Placements	3	0.4	0	0.2

Data from sample of 23 projects for which detailed data was available.

11.12 Table 11.2 shows that the projects performed less well than original targets in relation to all three identified recruitment groups. Contractors were able to come closer to targets for direct employees but had very little impact on subcontractors. Although limited, most success was gained in bringing in new entrant trainees. Targeted recruits were those such as long term unemployed or people with specific barriers to employment identified as difficult to place by social enterprise organisations. The absence of a dedicated employment consultant providing support may have impacted on recruitment from this group but they will also have found employment harder to get in the recession. There were very few unwaged placements, none with sub contractors.

Table 11.3 Number of separate individuals employed in each category

	Actual Number	Actual Percent
All employees	2881	100
New Entrant Trainee	55	1.9
Targeted Recruits	35	1.2
Unwaged Placements	26	0.9

Data from sample of 23 projects for which detailed data was available.

11.13 Table 11.3 expresses recruitment of target groups in terms of the total number of the cumulative number of people employed in each group throughout the whole programme. The 23 projects can be seen to have provided employment for a large number of people at some point during their execution⁶. The numbers of new employees in the target groups who gained access to employment was small.

11.14 A large programme such as Devanha provides opportunities for employment beyond the contractors and subcontractors working directly on the sites. Data collected in March 2011 shows Devanha's impact on other employment.

⁶ There will be double counting where individuals have worked on more than one site.

Table 11.4 Non-Contracting New Staff Employed as a Direct Result of Devanha (persons)

Type of Firm	Number of staff taken on since start of Devanha ¹	Number (from previous column) Currently Employed ²
RSL	0	0
Devanha	1	0
Architects	2	1
Surveyors	12	7
Engineers	8	6
Other Consulting firms	0	0
Suppliers	11	11
Others	0	0
Total	34	25

1. Taken on since start - means taken on as a result of Devanha work.

2. Currently employed refers to anyone in category 1 who is still working for the firm (Devanha employee not included as he was about to be made redundant).

11.15 From the data supplied, it appears that 34 people gained at least temporary employment as a result of Devanha and 25 of these are currently retained despite Devanha's programme coming to an end. Most of these jobs are in professional firms but there is no information on the nature of the jobs. The number of supplier jobs is an estimate and the basis of this figure is not known.

Conclusions

11.16 The recruitment and training targets set for Devanha have not been achieved but this is against a background of largescale redundancies in the construction industry as a whole. The continuity of work represented by Devanha has been beneficial to the firms involved and the emphasis has been on retaining staff, including apprentices rather than creating new positions.

11.17 Nevertheless, framework contractors have taken on 37 apprentices as a result of Devanha work and also over 100 new recruits and trainees, although not necessarily on a permanent basis. In addition, data suggests that 25 additional posts have been created amongst consultants, suppliers and other employers as a result of Devanha.

12 LOCAL AUTHORITIES

12.1 Introduction

Local authorities have been strategic partners in delivery of affordable housing since before the inception of Devanha. Moreover, the strategic and delivery roles of local authorities throughout Scotland have grown significantly over the period in which Devanha has operated, with the growing importance of the Strategic Housing Investment Plan (SHIP), including changes in the current year. Devanha operates over three separate local authority areas: Aberdeen City, Aberdeenshire and Moray.

- 12.2 The relationship between Devanha and the three local authorities is important to the success of the initiative and has been explored through interviews with senior local authority staff and in consultations with the Devanha Board. Data collected also examined how delivery had compared with the initial intentions of the Devanha Offer of Grant.

Devanha Objectives

- 12.3 The local authorities did not feel involved in setting Devanha's objectives and saw it as a bulk procurement initiative which sought to achieve cost and grant efficiencies and quality improvements. Their experience was coloured by a lack of external coherence on the part of Devanha and a feeling that individual RSLs continued to work to their own rather than Devanha's agenda. In those local authority areas where the majority of the programme was centred – Aberdeenshire and Aberdeen City - there was a general feeling that Devanha had been positive in delivering a large programme. For reasons discussed below, the impression held by Moray was less positive, although Moray representatives were a little more positive about Devanha by the end of the programme.
- 12.4 The lack of external cohesion of Devanha was a recurrent theme for all authorities and contact had been largely with individual RSLs rather than Devanha. An interviewee asked, "What is Devanha? Is it anything?" a view which did not really change over the period of the programme. Nevertheless, local authorities did engage with Devanha through its member RSLs, providing significant support in the form of grant funding and, in one authority, the existence of a large Devanha programme had allowed a more strategic view of land allocation.

Delivery Issues

- 12.5 A multi-year, multi-area programme such as Devanha required co-ordination of the programme and had to meet the differing housing needs and objectives of three different authorities. This inevitably created more complexity than a traditional one year Affordable Housing Investment Programme (AHIP) in a single area. Communication and control over the timing of delivery have therefore been of particular importance. For reasons within and without its control, Devanha has not performed well in either of these respects.

12.6 The programme was not split evenly across the three local authorities. At the end of the first year delivery was skewed towards Aberdeenshire and to a lesser extent to Aberdeen City although by the time the programme was complete this had evened out to be nearer the programme target as shown in table 12.1.

Table 12.1: Projects at Scheme Validation Stage

Local Authority	June 2008	Final Split
Aberdeen City	6	15
Aberdeenshire	10	28
Moray	0	8

Source: M&E Round 1 & Round 3 Data Capture Forms plus additional data supplied by Devanha

12.7 The programme's slow start exacerbated the sense of unfairness and led to an underspend on the AHIP in Moray. Lack of communication between Devanha and the local authorities over the programme delays created further tensions.

12.8 A stronger and more engaged external face to Devanha would have improved its image and helped it to manage these difficulties. However, Devanha's final performance in managing the programme across the three local authorities was very good, with the proportion of final unit output close that agreed at Offer of Grant stage as shown in table 12.2.

Table 12.2 Proportional Split of Unit Output by Local Authority

	Aberdeen City	Aberdeenshire	Moray	Total
Offer of Grant	43%	44%	13%	1563
Validation	41%	47%	12%	1383

Source: M&E Round 1 & Round 3 Data Capture Forms plus additional data supplied by Devanha

12.9 A strong perception emerged that Aberdeen City and Shire were the focus of the programme. The programme was much smaller in Moray and started later. Moreover, the overwhelming majority of the Devanha programme in Moray was delivered through the Moray Volume Procurement Initiative (MVPI3). Although MVPI3 was delivered by one of the Devanha RSLs, it was not part of the Framework Agreement but, rather, a series of section 75 projects which had been negotiated with a single developer.

12.10 The loss of units from the original target, around 40 from an original expectation of 209 was a larger proportion of the original local authority level programme and was more keenly felt in Moray than in the other local authorities. This resulted in a lower level of satisfaction with the overall Devanha experience. Although this is perhaps inevitable given the nature of the programme, it could have been handled better by strong strategic leadership from Devanha. This is an additional area where the appointment of

an MD could have prioritised a vulnerable area of Devanha's business.
Integration with SHIP

- 12.11 Over the period of the Devanha programme the role of local authorities at a strategic and delivery level has increased and the SHIP has taken a central place in strategic decision making. Devanha pre-dated the SHIP but local authorities found Devanha to be a useful tool in meeting housing need, particularly through the use of nominations to housing produced through the programme. In Moray the MVPI3 was well integrated with the SHIP but the authority did not consult with Devanha on the MVPI3 and Devanha was in many respects "just a badge" for delivering MVPI3.
- 12.12 A clear message is that local authorities and their delivery partners should communicate more fully in the development of a strategic programme for delivering affordable housing. Given the changing roles of authorities and RSLs and the more complex and challenging funding environment this is even more the case than in the past, bringing into focus Devanha's ability to communicate and present a strong and cohesive face to its external partners.

Communication

- 12.13 Local authorities felt that they had not been involved sufficiently in initial decisions about setting up Devanha and its programme. Latterly, local authority influence increased to some extent. However, local authorities continued to have little influence over the detail of the Devanha programme at a project level.
- 12.14 All of the local authorities considered that communication had been a negative aspect of Devanha. One noted that it was "was only consulted when a problem arose and where Scottish Government insisted that Devanha had our agreement before Scottish Government would agree to a change. There was generally a lack of early and open discussion...we were expected to agree with whatever Devanha proposed... [for example] where the RSL wanted to change the tenure mix." This was typical of the way Devanha interacted with local authorities. Devanha lacked strong leadership and so could not engage strategically with local authorities but instead addressed issues on a scheme by scheme, problem solving basis.
- 12.15 Outwith the tripartite meetings of the local authority, Scottish Government and Devanha, communication tends to be with individual constituent RSLs. Relationships with the RSLs were generally good, although it is not always clear if the RSL is representing itself or Devanha.

"There wasn't really a day to day relationship with Devanha, to a large extent this continued to be with the individual RSLs".

"There were irregular meeting with Devanha and all three authorities tried to have more meetings. But Devanha's involvement didn't bring anything new to the meetings"

(LA consultation, 2012)

Local Authority Support for Devanha

- 12.16 Throughout the programme, LAs demonstrated their support for Devanha through making funding available, transferring land to Devanha RSLs and Moray included Devanha as the agent for delivery of the Moray Volume Procurement Initiative (MVPI 3). Local authorities, in some cases reluctantly, supported Devanha decisions in order to allow schemes to remain viable. For example, they agreed to a change of tenure, even where a change to shared equity ran counter to the local authority's views on the appropriate mix, in order to allow a scheme to proceed.
- 12.17 This and other examples show that, despite reservations about their lack of involvement, authorities remained as supportive partners of Devanha throughout the programme. The authorities all welcomed the continuity which Devanha had brought to the construction industry in their areas. This was seen as beneficial not only to the three framework contractors but also to local suppliers.

Overall satisfaction

- 12.18 All of the local authorities were positive about some aspects of Devanha; Devanha was seen as a good opportunity to work collectively to meet needs of the area. The main negative comments related to poor communication and to the fall in number of units delivered in comparison to original estimates. There was some concern that decisions about reducing numbers of units or moving resources between the local authorities had not been discussed sufficiently with the authorities.
- 12.19 Aberdeen City commented that Devanha had been successful in pulling together sites where previously RSL access to sites had been very difficult. It had delivered a significant programme over a five year period. A particularly positive view in Aberdeenshire reflected the facts that delivery here had started early and the total number of units provided fell proportionately less than in other areas.
- 12.20 In Moray the successful delivery of the MVPI programme was welcomed. This was put down as a success in partnership working with the individual RSL. Devanha's involvement was seen as marginal. Devanha was thought to have been more interested in delivery in other areas than in Moray.

How Could Devanha have been Improved

- 12.21 From the LA perspective, Devanha was a complicated organisation without clear objectives.
- 12.22 All of the local authorities believed that Devanha needed improved communications. One summed this up as a need to show that "Devanha actually exists". Local authorities were aware of tensions between Devanha members.

- 12.23 Governance was seen as a problem, with RSLs unwilling to give up power and responsibility. This would have been improved by Devanha working more collectively. Authorities would have liked Devanha to explore the possibility of a single development team where shared skills and knowledge could have supported and strengthened all of the RSLs. One authority commented that the individual RSL staff were very professional but that it was not clear if being part of Devanha assisted or constrained them in their work.
- 12.24 The problem of relationships extended beyond Devanha to its partners in local authorities. Greater input from local authorities in setting up the initiative and in setting its goals would have been welcomed.

The Future

- 12.25 Looking to the future, all local authorities saw uncertainty in the coming year. Budgets would be small and the ability to start new projects very limited. The authorities would try to maximise the use of capacity which existed amongst all potential partners including local authority building, RSLs and the private sector.
- 12.26 Local authorities have concern about where the new affordable housing will come from this year. There may be opportunities for the authorities to continue council house building. The capacity of organisations to build, based on assets and liabilities is now a key consideration. There are very few RSL projects in the pipeline with ownership and planning permission in place and an organisation such as Devanha could play a part in pulling together sites. There was a concern a return to individual RSL programmes may be a backward step in this respect.
- 12.27 The local authorities were supportive in principle of a collaborative approach to delivering new affordable housing. It was suggested that this could increase capacity in comparison to individual RSLs, some of whom have little or no capacity. In this context there could be negotiations over a future role for a Devanha-like organisation. However, there had been no approach to any of the local authorities from Devanha for inclusion in the local authority SHIPs which were being prepared at the time the local authority interviews were being carried out in late February and early March 2012.
- 12.28 Looking to the medium term, the local authorities welcomed their increased strategic role in delivery of affordable housing. They saw a more co-ordinated approach, where they could bring together resources from across the public, RSL and private sectors as potentially beneficial. This could open up options for involvement but “no-one was speaking for Devanha”.
- 12.29 A local authority suggested that there was potential for developing a grouping, including a local authority in a co-ordinated approach. The local authority could take a lead strategic role but could be involved as an equal partner in delivery. In such a situation it was suggested that Devanha could conceivably work as a lead developer or preferred partner. However, it was emphasised that such an approach would be “very much dependent on getting governance right”.

- 12.30 Another authority suggested it could not deliver the whole programme over the next three years. It would look at all delivery options including a preferred developer or site by site competition. The council did not rule out Devanha's involvement in such an approach.
- 12.31 Devanha's good reputation in delivering quality is a factor in opening up possible future opportunities. Notably, Aberdeenshire Council has been running a demonstration in building new local authority housing: developing with the Devanha spec, developing with a council architect spec and a private developer spec. This demonstrates possible advantages of the council working collaboratively with others, such as Devanha, in delivery in the new affordable housing system.
- 12.32 The Aberdeen City interviewee believed that there was a continuing role for an RSL collective whether that was Devanha or something else completely. The City was concerned that the local RSLs may be too small to raise finance individually but hopeful that they may have greater capacity if working together. Devanha had demonstrated that bigger sites, such as Arran Avenue with around 100 units and Donside with over 200 units, could be developed where two RSLs worked together. On the other hand, Devanha was not the only possibility and, without expressing a preference for this, the interviewee noted that national RSLs may be able to develop bigger sites alone, possibly with local RSL management.
- 12.33 The Moray interviewee considered that whether Devanha would be involved would depend to a large extent on the criteria the council establishes for partnership working. Devanha has some advantages in having housing management infrastructure in the area already. This could be preferable to involvement of an outside organisation which has no existing stock in Moray.
- 12.34 This should be balanced by the view that Moray had felt peripheral to Devanha. It was noted that, ideally, if repeated, a bulk procurement initiative would be based in Moray only although the council understood that may not be practicable because of size of programme not being large enough. Future involvement of Devanha would have to address this issue.
- 12.35 In Aberdeenshire it was stated that consideration can be given to working with Devanha in future. Devanha had experience of collaboration which could be tapped into and be beneficial in meeting the council's strategic objectives through partnership. Devanha could be involved but it will need to reconsider its operation, governance and financing and work beyond just new housing in, for example, in stock improvement, retro-fit and energy efficiency in existing stock.

13 EVALUATION CONCLUSIONS AND LESSONS LEARNED

13.1 This chapter summarises the overall evaluation of Devanha and discusses transferable lessons learned from the Devanha experience. It focuses on:

- Value for Money
- Process Improvement
- Collaboration
- Programme Management
- Governance
- Strategic Relationships
- Training & Employment

Value for Money

Evaluation of Performance against Cost and HAG Targets

13.2 We considered performance against cost and grant targets and looked at some high level disaggregation of this performance: framework agreement projects and section 75 developers; tenure; and tranche. Data showed that there was no discernible pattern in performance between tranches and so no breakdown at this level is presented. Figures shown in this section relate to the 35 schemes for which actual costs were available. While the detailed figures vary a little between the 35 schemes and the full 51 schemes, the differences are not significant and do not alter the conclusions.

Table 13.1 Actual Works Cost Compared to Offer of Grant Target

Category	Variation From Offer of Grant Target	Met Target (Yes/No)
Whole Programme	+4.22%	No
Rental Schemes	+4.36%	No
Shared Equity Schemes	+3.60%	No
Framework Schemes	+9.36%	No
Non Framework Schemes	-2.78%	Yes

Based on 35 completed schemes where Actual Cost data was available.

Table 13.2 Actual HAG Level Compared to Offer of Grant Target

Category	Variation From Offer of Grant Target	Met Target (Yes/No)
Whole Programme	-9.22%	Yes
Rental Schemes	-8.98%	Yes
Shared Equity Schemes	-10.56%	Yes
Framework Schemes	-0.33%	Yes
Non Framework Schemes	-20%	Yes

Based on 35 completed schemes where Actual HAG data was available.

While the programme as a whole and all of the sub categories met the Devanha Offer of Grant target for HAG, only the non-framework schemes met this target for works cost.

Value for Money

- 13.3 The evaluation of value for money is complicated by the extreme changes which occurred in the economy as a whole. It is further complicated by a completely changed grant system which means that grant levels experienced by Devanha are well in excess of those being awarded today. Qualitative opinion from Devanha and its partners suggested that value for money may have been obtained through pain/gain share but that in the particular economic circumstances pertaining at the time, further savings could have been achieved by going out to the market to tender for individual schemes.
- 13.4 **Works Cost:** While commenting that Devanha works cost targets do not appear to have been based on evidence that they were achievable, Devanha has failed to deliver value for money against this benchmark. An exception has been the non-framework schemes which outperformed this target.
- 13.5 **HAG:** Against the benchmark set out in the Offer of Grant, Devanha has achieved value for money for the programme as a whole and for all of the sub categories of rented/shared equity and framework/non-framework schemes.
- 13.6 **Adjusted Target:** It is arguable whether the final adjusted target is a more useful benchmark of procurement efficiency. It was the basis of gain/pain share calculation in the 35 schemes where actual costs are known. Sixteen schemes performed better than this target and were in a gain situation and 14 met the target. Only 5 schemes experienced pain. On the basis of this measure of value for money the majority of schemes have performed to the adjusted target or better at the actual cost stage.
- 13.7 However, it can be argued that it is in the contractors' interests to revise this adjusted target upward through the compensation events mechanism. Of course, their view was that it was only used for legitimate extras as intended by NEC to recover actual additional costs incurred through no fault of their own. Conversely the procurement consultant's view was that contractors used this as an old fashioned claims approach and were not committed to achieving lowest cost possible. The Devanha consultants' view was that they saw the Scottish Government Validated target as the 'real' target.
- 13.8 **Scottish Government Validated Target:** Comparing actual costs with Scottish Government validated works cost targets shows that, at aggregate level, schemes have actually been delivered within this target (table 6.3 refers). This raises the question of what is the „real“ or most appropriate and realistic target against which to gauge performance. The Offer of Grant target was widely considered to be unrealistically low and generally unachievable, but conversely the SG validated targets were a crude benchmark that did little to challenge performance or incentivise contractors to minimise costs. Furthermore the gap between target setting and starting on site could be a matter of months, by which time the market had changed considerably. It was

observed that some of the more “successful” schemes were the ones where the target was set at the peak of the marketplace.

13.9 The following table highlights transferable lessons from Devanha in relation to assessing value for money.

Table 13.3 Transferable Lessons: Value for Money

Devanha Experience	Lessons
a. A single works cost target benchmark was used in the Offer of Grant. This was simple and easy to express and understand but too simplistic to be meaningful at scheme level as it doesn't account for site specific risks.	A more refined mechanism for establishing scheme level target cost would be necessary.
b. Although Devanha agreed the ambitious Offer of Grant target it was quickly regarded as unachievable. There was a lack of awareness amongst those delivering the projects and it was not used to drive performance.	There should be more emphasis on involvement of framework partners in understanding cost targets to improve buy-in.
c. A number of KPIs were used in the contract to incentivise performance and inform gain share/pain share on schemes. However, KPIs were not well defined or understood at the outset to clearly drive performance.	Establish and clearly communicate KPIs to all partners in a framework arrangement from the outset to give clearer direction. Promote better understanding of target cost concept of NEC.
d. Value for Money criteria were limited to capital cost target. This was simple and readily understood and measured. However, it lacks important value criteria including design quality, sustainability, life cycle costing.	Consider a number of VFM metrics in addition to capital cost.
e. Devanha introduced a new procurement approach and way of working not previously experienced in the area. The Devanha legacy has been to develop procurement skills and experience in the North East construction sector.	Although the value of this is not measurable within Devanha terms of reference, an innovative approach to procurement increases skills and capacity in the industry.

Evaluation of Process Improvement

13.10 Higher levels of collaboration than experienced through traditional procurement were achieved. Consequent benefits of better communication, trust, open book costing and sharing of buildability experience were attained.

- 13.11 On the other hand, lack of understanding and experience of the NEC procurement process that is fundamental to operational aspects of Devanha procurement are clear, despite the engagement of a procurement consultant from the outset. Difficulties relating to the operational aspects of implementing the NEC Devanha approach hampered Devanha for a large part of the duration of the initiative.
- 13.12 Incremental improvements in efficiency gains/cost savings year on year from the Devanha framework approach were not evident. As such the influence of the Devanha process on VFM and cost savings at scheme level is difficult to evaluate.
- 13.13 Table 13.4 shows transferrable lessons from the Devanha experience in relation to procurement process issues.

Table 13.4 Transferable Lessons: Procurement Process

Devanha Experience	Lessons
a. The selection process for Devanha partners didn't sufficiently consider compatibility with a framework approach. There was a sense that not all partners fully bought into NEC target cost approach and behaved as if traditional procurement.	Amend the selection and appointment process to be more specifically suited to framework contracts.
b. All programme workload was allocated to contractors at outset. This is a comparatively simple and straightforward process but limits ability to review performance and competitiveness mid programme.	Consider staged allocation of framework workload based on performance.
c. Devanha procurement consultant also carried out assessments used to set validated works costs targets. While carried out to professional standard this lacks independence as procurement consultant has a vested interest in inflation assessment.	Consider independent third party assessment of any inflation adjustment to cost targets.
d. Price Data for inflation assessment largely derived from within Devanha partners. Price Data does not effectively represent open market inflation conditions.	While this was unavoidable due to lack of available comparators, greater confidence in qualitative assessments needed would have been given by using a third party consultant.
e. There was an absence of knowledge and experience of NEC within Devanha	Carefully consider whether the NEC procurement approach is

partners. Cultural readiness and operational capability therefore took a long time to develop.	appropriate for the programme. Possibly modify/adapt to suit.
f. Many schemes were partially or fully developed before framework approach adopted. Opportunity was therefore lost at early stages for Core Group input limiting effectiveness of NEC approach.	Ensure early involvement of supply chain in framework approach to harness benefits.
g. Devanha framework approach adopted the NEC 3 form of contract. CWC and Devanha considered a variety of forms of contract at a workshop. NEC3 enabled a level of collaboration and integration in the Core Group not seen in traditional procurement but significant risks are still retained by the client under NEC3.	Carry out thorough assessment of alternative procurement routes and contracts. Pay particular attention to risk aspects of all contractual arrangements which are considered.
h. Some aspects of an identifiable Devanha specification evolved over time. This allowed for limited economy of scale benefits to be achieved for some elements. On the other hand, lack of comprehensive Devanha specification meant that full bulk buying potential was not achieved. Opportunity for more strategic involvement of subcontractors could not be achieved.	There should be more integration of partners at outset to establish and define an agreed specification.

Evaluation of Collaboration

13.14 Devanha was partially successful in implementing collaborative working. Some aspects of the NEC approach were implemented but only partially and they were still being developed late in the programme. Table 13.5 indicates learning points from this experience.

Table 13.5 Transferable Lessons: Collaboration

Devanha Experience	Lessons
a. The Strategic Client Group promoted collaborative systems from a client perspective e.g. in implementing the framework agreement. However, this was criticised as taking too long to get underway.	There is a need for focus on developing collaborative working from an early stage. This requires leadership, professional support and commitment from the Board.
b. Procurement consultants were engaged to advise on NEC approach. They provided	Carefully consider remit and terms of engagement of procurement consultant in future. Emphasise the mentoring role in

access to the required knowledge and experience of NEC approach which was absent. However, training workshops achieved little; knowledge transfer was superficial and did not extend to practice and application.	supporting operational and implementation aspects. Ensure that the client has a dedicated project manager to oversee the procurement consultant project. Consider whether scheme PM role should be extended where experience in team is absent.
c. The Core group provided a route for communication for partners including sharing learning. The procurement consultant and Programme Director considered it could have been more proactive.	A core group involving the client and partners is essential for enhancing collaborative working and sharing of ideas which can improve quality. It should be set up early in the programme to advance good working practices and involve partners in specification issues e.g. related to buildability. It is important that staff delivering development are involved.
d. Open book costing and NEC framework meant sharing of savings but in securing longer term collaboration some market testing and price advantages in a falling market were lost.	There is a trade off between competition and collaboration. In a falling market the client may lose out on windfall gains. Nevertheless, the wider benefits of collaboration are accepted and partners should operate framework agreements to maximise efficiency, e.g. through commitment to beating target costs and staged allocation of contracts.
e. There was a generally non-confrontational approach which was assisted by the NEC contract use of compensation events. This did, however, leave the client with significant responsibility for risk.	Carefully consider the contract to be adopted including suitability for collaborative approach and impact on risk.
f. Collaboration was almost exclusively with first tier contractors.	Efforts should be made to expand collaborative working within the supply chain.

Evaluation of Performance in Programme Management

13.15 Overall, Devanha is in the closing stages of managing a substantial programme to a successful completion based on delivery of 1,383 units while meeting grant targets. Table 13.6 shows transferable lessons from the Devanha experience in relation to Programme Management.

Table 13.6 Transferable Lessons: Programme Management

Devanha Experience	Lessons
a. Four year programme.	Multi year programme gives opportunities for continuity of work using a framework agreement.
b. Interim year-on-year grant planning targets.	Interim targets are useful for overall programme management but should be used with as much flexibility as possible.
c. Innovative approach to project approval associated with project delays. Delays caused damage to Devanha’s reputation.	Light touch approval gives greater control to RSLs and should be encouraged. However, there is a need for a common understanding of the parameters of scheme assessment to be established early as delays in reaching agreement on individual schemes can have a major impact on programme success. Processes should be tested before the start of the main programme.

Evaluation of Devanha’s Governance

13.16 Devanha’s governance structure and systems have reflected the tensions between ceding control to the Devanha Board and RSLs’ desire to retain control. Over the course of Devanha, the RSLs became more comfortable working together in Devanha but difficult issues remained in relation to apportionment of risk. Devanha also recognised that lack of strong leadership had hampered its performance in a number of ways.

13.17 Table 13.7 highlights transferable lessons in relation to governance. These relate largely to roles and responsibilities, leadership, risk, monitoring and control.

Table 13.7 Transferable Lessons: Governance

Devanha Experience	Lessons
a. Board of 10 directors – two each from each RSL.	The Board composition should be designed to enable more independent scrutiny. It is reasonable for the RSLs to nominate members for the Devanha board, but independence of the board should be enhanced. This should be achieved by a minority membership from RSL executives, and inclusion of independent Board members with <u>no</u> affiliation to any of the RSLs. This should help minimise conflicts of interest

	and make decision making more efficient.
b. Governance sub-structure with 6 subgroups allowed RSLs to stay involved but was slow set up. Strategic Client Group particularly useful. Others were periodically used.	The sub-structure should be simplified. An efficient Devanha executive and staffing structure would reduce the requirement for a bureaucratic governance sub-structure. Ad-hoc sub-groups could be convened where expertise and individual RSL policy views are required but <u>on an exception basis</u> . More use should be made of the Core Group as an operational rather than strategic group.
c. Senior leadership – Devanha failed to appoint a managing director and this weakness was demonstrated repeatedly in many aspects of Devanha’s operation.	Any future collaborative programme should have a leader – Managing Director - from the start with a development team, probably seconded from the existing RSLs to enable effective implementation. Reporting lines of the development staff would be through the Devanha MD.
d. Employment of Programme Director.	This role will not be necessary if there is a managing director and development team in place.
e. Day-to-day control of projects by RSLs allowed use of existing expertise and local control but did not give clear lines of responsibility, reduced opportunities for standardisation and caused confusion for external bodies with lack of branding of Devanha.	All projects which are part of the collaborative programme should be the responsibility of Devanha. Staff working on the projects should be responsible to and managed by Devanha (as above). Responsibility to the RSLs should be through a service level agreement between Devanha and the RSLs.
f. Strategic responsibility split. Difficult in practice to separate “development strategy” (RSLs) and “strategic decisions about execution of the programme” (Devanha).	There should be clear split of responsibility: RSLs decide what projects they want to be involved in within Devanha (because they have risk/local accountability). Devanha takes strategic decisions about all projects which are in programme. Devanha has management responsibility for all projects in the programme. To fulfil its role, Devanha needs to have a dedicated team of development staff with line management responsibility through the Devanha MD.
g. Roles and responsibilities:	Have clear agreement, setting out

<p>Devanha’s agency role allows for delivery of a large programme but there was lack of clarity in the respective roles of Devanha and the RSLs.</p>	<p>responsibilities – Devanha should have full control after decision to include project has been taken. Devanha should have service level agreements with each RSL. RSL role should be to decide on participation/non-participation, selection of schemes to include in Devanha programme and to receive completed units. RSLs could continue to have input to development of Devanha specification.</p>
<p>h. Financial risk: Formation Agreement addressed grant redistribution where there was a surplus but not in the event of a shortfall. Lack of adequate cost information compounded the problem because RSLs were unaware of how much risk they were exposed to until late in the programme.</p>	<p>Analysis of risk including positive and negative scenarios should be undertaken at outset and principles for apportioning risk should be explicit. All RSLs should be aware of risk exposure before entering into a collaborative agreement. Development staff working directly for Devanha will help in apportioning professional responsibility. The impact of rent harmonisation on HAG levels should be explored as a prerequisite for further development. SHR should be given further opportunity to comment on treatment of risk in future agreements. The quality of cost data should be sufficient to monitor risk effectively to alert partners to potential shortfalls earlier than was the case with Devanha – buy-in of project managers and contractors is an important element of this.</p>
<p>i. Monitoring performance and managing risk. Overall view that the systems were not adequate and monitoring involved “fixes” rather than the systematic monitoring system which had been sought.</p>	<p>Establishing a performance monitoring system should be a key task for the MD and her/his team at the outset of any programme. This needs the buy-in of the project managers and of the contractors. The development of web based technology to assist in project monitoring is appropriate for any large collaborative programme. However, it is essential that the collaborative partners including project managers and surveyors are involved in the specification and that the technology is fitted to the needs of the client. Commissioning a live version of any tool should be part of the IT project specification. The collaborative organisation should appoint a named project manager for the IT project, in Devanha’s case this should be the MD.</p>

Evaluation of Strategic Relationships: Local Authority Engagement

13.18 Devanha’s performance in developing external relationships is strongly influenced by its governance structure. However, this issue is considered separately because of its importance, particularly in relation to any future collaborative development programme. Table 13.8 focuses on transferable lessons from Devanha’s relationships with local authority partners.

Table 13.8 Transferable Lessons: Strategic Relationships with Local Authorities

Devanha Experience	Lessons
<p>a. Devanha largely delivered its programme in three LA areas in approximately the proportions set out in its Offer of Grant. In the early part of the programme there was discontent over an underspend in one area and overall a feeling that the programme was more focused on some areas than others.</p>	<p>A collaborative approach can deliver a large programme over a number of local authority areas. However, the relationship and information flows with each individual LA need to be given attention. LAs need to be kept informed of decisions which affect their area and the collaborative organisation should try to respond to local authority concerns.</p>
<p>b. Devanha’s external image was poor. It was difficult to communicate with and local authorities viewed Devanha as a „badge“ for RSL activity.</p>	<p>Appointment of a managing director with a dedicated team of development staff working for Devanha would overcome this problem. A collaborative organisation should have clear branding and engage with external partners on its own behalf.</p>
<p>c. Devanha was seen as a complicated organisation with which to deal.</p>	<p>Separation of responsibility as discussed in relation to governance, so that programme and project management were Devanha’s responsibility, would address this issue.</p>
<p>d. The strategic relationship with LAs was poorly developed. LAs were not involved in determining Devanha’s objectives.</p>	<p>The local authority is a key strategic partner and should be involved in setting objectives.</p>
<p>e. Communication with LAs over the implementation of the programme was weak, for example, when there were changes impacting on</p>	<p>The collaborative organisation should be proactive in communication with the LAs.</p>

numbers or tenure.	
f. Devanha was a useful organisation in bringing together larger sites or developing difficult sites. LAs were supportive of Devanha in this respect. LAs saw benefits in dealing with a collaborative organisation with a spread of housing management infrastructure in place.	A large programme allows a more strategic consideration of sites. Given the increased strategic role of LAs there are particular advantages in a group of RSLs coming together where they collectively have a wide spread of housing management resources and existing units across a local authority area.
g. LAs are concerned over a lack of capacity to build amongst organisations in their areas. They see a continuing role for a collective approach to development.	A collaborative organisation could have more collective capacity to build a reasonable programme in an area than individual RSLs. Due to its existing housing management capacity (mentioned in f.) it is in some respects at an advantage over a larger non-local RSL developer.
h. Devanha was seen to deliver a quality housing product.	Devanha's good reputation means there could be potential for offering development services to LAs provided that it was viewed as a viable partner.
i. In the medium term LAs are looking to a variety of providers to deliver affordable housing. All options including LA, RSL and private sector developers may have a role. However, Devanha members are not currently taking forward any proposals and other models are likely to become the norm in the area.	Having delivered a large programme of good quality housing, Devanha should be in a position to compete to deliver affordable housing in LAs in the north East. It would have to demonstrate improvements in governance and corporate identity to show that it was an easy and efficient partner.

Evaluation of Performance on Quality & Standards

13.19 Testing out opportunities for bulk procurement and promoting housing quality were key elements of the Devanha initiative. Within the constraints of costs, Devanha performed well in fostering and sharing good practice in achieving housing quality. On the other hand, it was largely unable to achieve benefits from bulk procurement. Table 13.9 summarises lessons in relation to quality and standards.

Table 13.9 Transferable Lessons: Quality and Standards

Devanha Experience	Lessons
<p>a. Bulk procurement: Devanha was largely unable to gain benefits from bulk procurement, in part because schemes had been developed using traditional methods before being brought into Devanha and also because RSLs hung onto elements of individual specification. Relatively small efficiencies were gained in relation to components such as windows and, more significantly, timber kits in later schemes.</p>	<p>Schemes brought into a collaborative programme after being designed traditionally will have limited scope for economies from bulk procurement. A collaborative programme should strive to have a standard specification in place before considering schemes for inclusion. RSLs should submit schemes to a collaborative programme as early as possible and with as little pre-design as possible. The standard specification should balance local variation with standardisation. Member RSLs should have input into the continuing development of the standard specification so that it can be improved with reference to experience and needs of RSLs without unnecessary variation.</p>
<p>b. Environmental performance and sustainability: The programme met targets for SAP rating and eco-homes standards. A small number of houses in non-framework schemes failed to meet the SAP target. Devanha focused on sustainable building and output included local sourcing, timber frame, air source heat pumps and super-insulated houses.</p>	<p>Setting energy efficiency targets provided a useful focus for the programme. More generally, setting key themes for quality improvement can act as a driver of quality in a collaborative programme.</p> <p>Consideration should be given to how standards can be extended to non-framework schemes, as section 75 projects increase in importance in the national affordable housing programme. (In some areas, particularly energy and accessibility, improved building standards are resulting in more convergence between RSL and private developer standards, so this will become easier to achieve.)</p>
<p>c. Promoting Higher Quality Standards – The Performance Improvement Group explored quality but timing was too late to influence some schemes.</p>	<p>Early adoption of standard layouts, specifications, and components would enable a number of benefits, including economies of scale in procurement, and repetition leading to improved quality.</p>
<p>d. Innovation – The</p>	<p>Early investigation and adoption of innovative</p>

<p>Performance Improvement Group explored the potential for innovation and use of modern methods of construction, e.g. off site construction including use of „pods“.</p>	<p>approaches may deliver benefit and provide a step-change in the way housing is delivered. The collaborative organisation should have a standard specification in place and update this through an equivalent of the Performance Improvement Group. The potential for sharing knowledge would be increased and risk reduced if all RSLs were involved, along with consultants, contractors and, where appropriate, suppliers. Solutions could be discussed and implemented jointly and address performance, sustainability, economies of scale and buildability.</p>
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Evaluation of Training & Employment

The Devanha Offer of Grant set targets in relation to training and employment. As one of a range of targets, training and employment was given relatively low priority. Training targets were knocked off course by the recession in the building industry although there were some achievements. Table 13.10 highlights lessons from Devanha in relation to training and employment.

Table 13.10 Transferable Lessons: Training and Employment

Devanha Experience	Lessons
<p>a. Devanha set up objectives for training & employment with a key target of creating 150 modern apprenticeships. These targets were not achieved but selection criteria for framework contractors included their attitude to training and the contractors did take on apprentices during the recession.</p>	<p>Include a positive approach to training in selection criteria for framework contractors. Even in the deep recession experienced in the industry, committed contractors were able to retain apprenticeships with the help of a large works programme.</p>
<p>b. Devanha had targets for recruitment of people with difficulties which made it hard for them to find employment. Devanha did not retain the services of specialist consultants beyond the first year and had very little success in this area.</p>	<p>Achieving wider benefits in employment and training requires commitment and allocation of resources. To be successful, dedicated resources have to be allocated to provide the necessary support to help people into work.</p>
<p>c. Devanha set up targets for recruitment and training which could be monitored. These were not implemented by the non-framework contractors.</p>	<p>It is valuable to monitor recruitment and training activity. Given the increasing role of section 75 agreements in delivering affordable housing, efforts should be made to encourage and monitor employment and training by private developers.</p>

d. There was very limited impact on subcontractor recruitment and training.	There was no mechanism for engaging with subcontractors in employment and recruitment and no incentive for them to address the issue. Extending best practice in training and recruitment may be explored as part of extending partnering within the supply chain.

Summary Conclusion

- 13.20 Devanha Phase 2 was designed as a bulk procurement initiative which aimed to produce cost and grant efficiencies while delivering high quality development. Through the use of a framework agreement and NEC form of contract, Devanha would demonstrate a change of style, culture and process.
- 13.21 Devanha did not meet its works cost targets as set out in the Offer of Grant. It did, however, meet the validated and adjusted cost targets taking into account agreed inflation and compensation events.
- 13.22 Devanha was hampered by tensions between the roles of the Board and individual RSLs. A Devanha-like collaborative organisation could be more successful with clear demarcation of responsibility; the collaborative organisation would require complete responsibility for strategic programme level issues and operational project level issues.
- 13.23 Devanha or a successor organisation should create a strong leadership position such as a managing director. Development staff should also work directly for the collaborative organisation.
- 13.24 Devanha and its partners did not fully implement the collaborative approach and only partially fulfilled the requirements of the NEC contract; cultural change was not fully embedded and some of the advantages of NEC were not fully realised. Addressing these issues would be a key role for a managing director.
- 13.25 Devanha was successful in building to a high quality but did not achieve significant bulk procurement savings. Further standardisation of specification, sharing of experience amongst partners and application of this early in the design process would provide opportunities to improve quality and explore bulk procurement efficiencies.
- 13.26 Devanha did not fully address issues of risk to individual RSLs. A more complete analysis of risk should be a prerequisite for collaboration. It would determine whether RSLs should become involved as partners. Risk analysis should be a major feature of choice of contract and procurement route.
- 13.27 With appropriate changes to its governance and leadership, Devanha could form a model for collaborating with local authorities to deliver affordable housing programmes in future.

Social Research series
ISSN 2045-6964
ISBN 978-1-78256-294-8

web only publication
www.scotland.gov.uk/socialresearch

APS Group Scotland
DPPAS13730 (12/12)

